Pinnacle
Wealth Management
Plan. Protect. Prosper.

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The Pinnacle View Point

In this months issue, we cover the following:

- Stock Market - October wrap-up
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- Global commentary
- A Trump Presidency
- How does the US election work?
- Economic Snapshot
- Who hit the “pause” button on retirement
- Self-managed Super Funds (SMSF’s)

Stock Market— October wrap-up

The Australian share market (ASX300 including dividends) lost about 2% in October, putting us in the middle of the pack of stock market returns which were bounded by New Zealand at the low point (-6.5%) and Japan at the high (+3%). The UK lost 4% while US returned -1%. France and Germany just about broke even for the month. The $A was pretty much unchanged for the month at $US0.76.

Resource stocks held up well in October; only this sector and the Banks produced positive returns, albeit both less than 2%. More than offsetting that however was very poor performance from Healthcare and Property stocks: both sectors were down 8% in the month. One of the big features of the month was a sharp reversal of the recent strength in bond yields. Long bonds have backed up sharply from recent historic lows, causing so-called bond proxy stocks (these are generally in high-yielding sectors like Telecommunications, Property and Utilities) to under-perform sharply. The chart below shows a noticeable move upwards in bond yields in Australia and the US. Notwithstanding this, yields remain very low even by the standards of recent history so if the bond sell-off were to continue those stock performance trends might as well.

Commodity prices were generally firm in October but the standouts were the bulks: Iron Ore, Thermal Coal and Metallurgical Coal. Iron Ore bottomed out in December 2015 below $US40 per tonne but recovered to $US65/tonne by the end of October. Metallurgical Coal, which is used to convert iron ore into steel, has been even stronger and is now more than triple its December 2015 low of $US75/tonne. Thermal Coal, which is used for power generation, troughed in March this year below $US50 and finished October just over $US100. Whether those prices can be maintained remains to be seen but, for now, many resource company share prices are very healthy indeed.

Base metals were generally stronger but much more subdued than the bulks: Aluminum and Zinc up 3-4% but Lead and Nickel fell slightly. Crude Oil and Gold both fell 3-4% as well.

And in late-breaking news, for what feels like the umpteenth time this year, the overwhelming consensus was overturned and Donald Trump became US President-elect.

LAST MONTH

S&P/ASX Indices fell through October with broad weakness across industrial sectors offsetting gains across Materials and some recovery in Financials. Further resources earnings upgrades saw consensus FY17 EPS edge up to +8.6%, helping bring the ASX 200 multiple back to 15.5x.

Australian equity market returns (ASX 200) continue to oscillate between up/down months over FY17, closing October at 5,318 (-2.2% TR). Large caps pulled one back, but the real story was continued earnings and price momentum for the Resources sector. Meanwhile, an unwind of bond proxy valuations played out through the month, with Real Estate and Utilities proving significant laggards. Health Care was the worst performing sector, with HSO falling ~28% (detracting 10 bps) following lower-than-expected hospital revenue growth in its recent trading update, while CSL detracted a further 21 bps. **FY17 EPS now at 8.6%; FY18 lower at 7.2%.** The latest IBES consensus aggregate EPS growth estimate for FY17 now sits at 8.6% (previous month-end +7.8%), largely a reflection of the continued positive earnings revisions within the Materials sector, with FY17 EPS up another 2ppt to 39% and factoring a lower final) FY16 base. Resources account for 45% of the FY17 EPS uplift with 33% from Industrials-ex-Banks and 22% coming from the Banks. The largest single stock contributor is BHP (+2.4ppt), whilst WES earnings imply a detraction of -0.5ppt.

ASX 200 multiple falls from 16.2 to 15.5x: The combination of a down-month and higher forward index EPS level has seen the 12m-forward multiple de-rate from 16.2x to 15.5x over the month. Industrials-ex-Financials are now trading below 19x, while stronger earnings momentum has cut the Resources multiple from an April peak of 25x to 18.8x. **Materials and Financials up, but market still down:** It is not often that the market falls when Materials and Financials are up, as was the case in October. Materials momentum added a further 20bp to ASX 200 returns, and a rebound in Financials (+25bp) was offset by negative returns across all other sectors. Most-impacted were Real Estate (-67bp), Health Care (-59bp) and Discretionary (- 30bp). At a stock-level, WBC (+22bp) and BHP (+15bp) were the largest single stock drivers, whilst WES (-24bp), CSL (-21 bp) and SCG (-18bp) were the largest detractors over the month.

Global Commentary

Source – T.Rowe Price

US Stocks

Stocks fell in October as concerns about tighter global monetary policy and uncertainty in advance of the coming U.S. elections appeared to outweigh some encouraging earnings reports and economic data. The technology-heavy Nasdaq Composite and smaller-cap indexes, which are typically more volatile, underperformed the large-cap benchmarks. Within the Standard & Poor's 500 Index, health care and telecommunication services shares performed worst. Financials stocks performed best, helped by some solid earnings at major banks and expectations of improved lending margins as interest rates rise. Utilities was the only other segment to record a gain for the month.

Expectations for less accommodative policy on the part of the Federal Reserve and other major central banks appeared to weigh on sentiment early in October. Stocks fell on the month's second day of trading, following reports that the European Central Bank was preparing to reduce bond purchases at some point. Investors also seemed unnerved by comments from Richmond Fed President Jeffrey Lacker, who urged "pre-emptive action" to stave off inflation. While Lacker is widely considered an inflation "hawk," suggestions that the Fed was ready to act were later echoed in comments by noted "doves," including the influential New York Fed President William Dudley. By the end of October, federal funds futures were pricing in a roughly 70% chance of a rate hike by the end of the year.

Economic data released in October appeared strong enough to give the Fed room to act, but not sufficiently robust to spark enthusiasm about economic growth and corporate profits. Payroll growth in September slightly missed consensus expectations, but hourly earnings showed a solid gain. A gauge of U.S. manufacturing activity moved back into expansion territory, while a companion reading of service sector activity leaped higher, reaching its best level in a year and reversing a worrying slump in August. Sales of both new and existing homes recorded good September gains, and retail sales posted their largest rise in three months. While the increase in core retail sales (excluding sales at automotive dealers, building materials stores, and gas stations) was more muted.

International stocks

Recorded negative returns in October as economic growth uncertainty, fears of a "hard" Brexit, and continual outflows from European equities hurt demand for stocks. Trading was relatively light during the month. Consumer and business confidence and other key economic data painted a financial picture of a better-than-expected recovery, however. The pound was volatile, touching its lowest level since 1985.

Within the MSCI Europe, Australasia, Far East (EAFE) Index, growth stocks underperformed value stocks. The health care sector was the weakest performer, falling slightly more than 7%, dragged down by biotechnology and health care providers. Consumer staples was also a significant underperformer, largely because of weakness in tobacco stocks. The financials sector was the strongest performer, buoyed by surging bank stocks. Emerging market stocks outperformed developed market stocks.

European stocks

The European Central Bank (ECB) kept its key interest rate at 0% and its deposit rate at -0.4% at its October meeting. ECB President Mario Draghi said that the bank would wait until December before making a decision on extending its quantitative easing program. The ECB's September policy meeting minutes, released in October, said that asset purchases will go on until "inflation is truly on the path to our objective." Eurostat estimated eurozone inflation to be 0.5% in October, but that is still far below the central bank's target of achieving 2% inflation.

Japan

The Bank of Japan (BoJ) suggested that it may lower its upbeat inflation projection for the next fiscal year given little progress in stimulating inflation so far. Headline inflation fell 0.5% year-over-year in September, unchanged from August. BoJ Governor Haruhiko Kuroda told the Japanese parliament in the last week of October that he saw no immediate need to change the -0.1% short-term interest rate target or the 10-year government note yield target of around 0%. Despite a weaker yen, exports declined in September for the 12th successive month. Retail sales also fell by a larger-than-expected 1.9% in September, its seventh consecutive monthly decline. After a period of underperformance and net selling, foreign investors' interest in Japan equities increased inflows.

China

Stocks retreated, though mainland-traded A shares edged higher. The Chinese yuan lost 1.5% against the U.S. dollar and sank to a six-year low during the month, reviving concerns that the government was resorting to currency weakness to help the nation's exporters. China reported that its economy expanded 6.7% in the third quarter from a year ago, leaving the country on track to meet its 2016 target but underscoring the economy's dependence on credit-fuelled growth.

India

Stocks declined. India's central bank cut its benchmark rate to its lowest level since January 2011, citing sluggish economic expansion worldwide. The surprise move was the first rate decision from India's new central bank governor, who is benefiting from slowing inflation and expected to adopt a more dovish stance than his predecessor.

A Trump Presidency

Source – Colonial First State—November 2016

Donald Trump's victory in the US Presidential election has sent shock waves across the world. Even many Republicans have been surprised by the party's unexpectedly strong performance, which is likely to see it keep a majority in both the Senate and House of Representatives, as well as winning the Presidency.

The implications are far reaching, both politically and for investment markets. But what does his surprise victory mean for Australian investors? And how should you respond?

The new President's policy priorities

Donald Trump will be sworn in as President on 20 January 2017. Once he comes into office, his domestic political priorities are expected to be:

- Cutting company tax from 35% to around 20–25%.
- Cutting income tax, with three basic rates: 12%, 25% and 33%.
- Scrapping Obamacare.
- Increasing spending on defence by US$450 billion and Veterans' programs by US$500 billion.
- Introducing a US$300 billion infrastructure spending program.
- Taking a tough stance on immigration, with promises to clamp down on both legal and undocumented immigrants.

Looking beyond the US, Trump has pledged to introduce a much more aggressive trade policy, including:

- naming China as a currency manipulator and putting tariffs on some Chinese imports
- changing the terms of the North American Free Trade Agreement (NAFTA), and
- abandoning the Trans-Pacific Partnership (TPP).

It is still unclear whether the new President will be able to act unilaterally on trade policy or whether he will be able to win the support of Congress to change current policies, especially treaties such as NAFTA.

Meanwhile, his energy policies are also likely to have implications worldwide, including a pledge to reduce drilling regulations on oil companies and reverse some climate change policies.

How markets reacted

Investment markets dislike uncertainty — and Donald Trump's win has been described as 'revolutionary' and 'a vote against the political status quo'. So, it's not surprising his victory caused market jitters across the globe.

But once investors had the opportunity to digest the news, markets soon recovered. So, while futures trading showed the US S&P 500 down 5% in the immediate election aftermath, US markets rose when they opened the next morning.

Similarly, the US dollar initially fell, then recovered to finish stronger against most currencies, including our own. Meanwhile the Australian market has regained all of Wednesday's losses in early trading on Thursday.

What happens next may depend on the signals the President-elect gives on the likely direction of his new administration. Many will be hoping to see him maintain the conciliatory and pragmatic tone we heard in his victory speech, rather than the more hardline rhetoric of the campaign itself.

What it means for investors

Over the longer term, a Trump victory has both positives and negatives for Australian investors. The policies he has announced are likely to be highly stimulatory. Assuming he can get them through Congress (now more likely, given the Republican majority), a combination of tax cuts and big new spending programs could speed up economic growth and boost the US dollar.

That could see shares climb higher — especially companies with large cash holdings offshore, or those likely to benefit from Trump's nationalistic policy focus.

However, in the medium term, a more expansionary policy could increase inflationary pressures, increasing the likelihood that the Federal Reserve will raise interest rates more aggressively. That could dampen sharemarket growth while driving Treasury bond yields higher.

Meanwhile, Trump's anti-trade policies and increased tariffs are also likely to be inflationary, potentially weakening the US economy and sharemarkets. Investors may be well advised to monitor events carefully and ensure they have the right level of exposure to US and international markets as conditions change.

How should you respond?

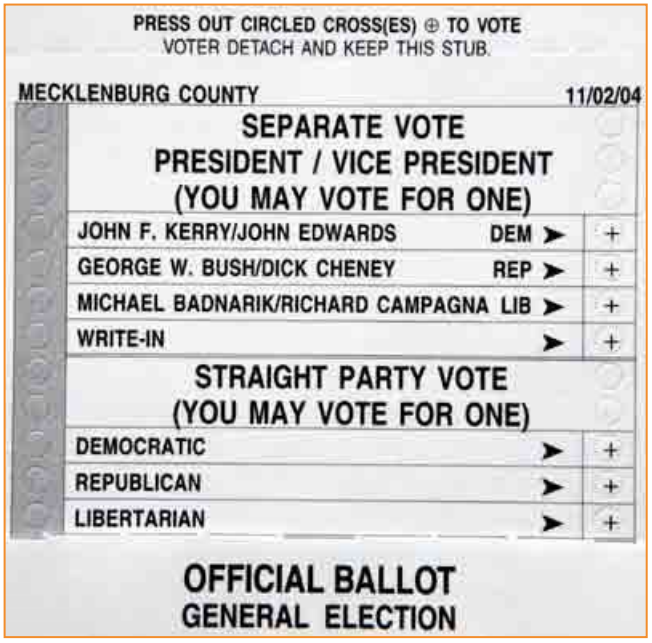
Markets rise and fall from day to day — but as an investor, it's the long-term growth outlook that truly matters. That means it's important to stay focused on your long-term goals and hold the investment portfolio most likely to help you achieve them. An adviser can help you make sure you have the right investment mix for your individual situation, avoiding emerging risks without sacrificing opportunities for growth. If you're concerned about the effects of recent market movements on your investments, make an appointment to talk to them today.

How does the US election work?

Source—Marcus

It is not just the President that will be voted on but elections will also be held for 435 voting member seats in the House of Representatives and 34 out of 100 Senate seats will also be voted on. Twelve state governors, two territorial's governorships and a partridge in a pear tree. There are also mayoral elections in many cities. Many states will also vote on elected officials too.

The ballot papers in the US are as big as the ones we see here sometimes.



PRESS OUT CIRCLED CROSS(ES) ⊕ TO VOTE
VOTER DETACH AND KEEP THIS STUB.

MECKLENBURG COUNTY 11/02/04

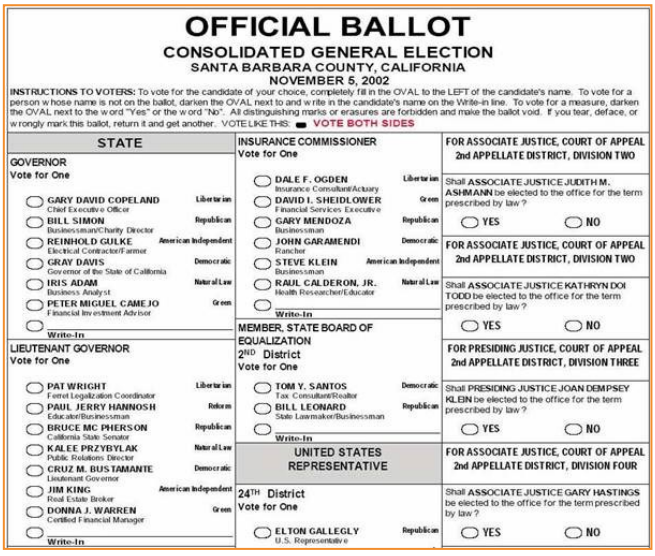
SEPARATE VOTE
PRESIDENT / VICE PRESIDENT
(YOU MAY VOTE FOR ONE)

JOHN F. KERRY/JOHN EDWARDS DEM ➤ +
GEORGE W. BUSH/DICK CHENEY REP ➤ +
MICHAEL BADNARIK/RICHARD CAMPAGNA LIB ➤ +
WRITE-IN ➤ +

STRAIGHT PARTY VOTE
(YOU MAY VOTE FOR ONE)

DEMOCRATIC ➤ +
REPUBLICAN ➤ +
LIBERTARIAN ➤ +

OFFICIAL BALLOT
GENERAL ELECTION



OFFICIAL BALLOT
CONSOLIDATED GENERAL ELECTION
SANTA BARBARA COUNTY, CALIFORNIA
NOVEMBER 5, 2002

INSTRUCTIONS TO VOTERS: To vote for the candidate of your choice, completely fill in the OVAL to the LEFT of the candidate's name. To vote for a person whose name is not on the ballot, darken the OVAL next to and write in the candidate's name on the Write-in line. To vote for a measure, darken the OVAL next to the word "Yes" or the word "No". All distinguishing marks or erasures are forbidden and make the ballot void. If you tear, deface, or wrongly mark this ballot, return it and get another. VOTE LIKE THIS: ■ VOTE BOTH SIDES

STATE

GOVERNOR
Vote for One
- GARY DAVID COPELAND, Chief Executive Officer — Libertarian
- BILL SIMON, Businessman/Charity Director — Republican
- REINHOLD GULKE, Electrical Contractor/Farmer — American Independent
- GRAY DAVIS, Governor of the State of California — Democratic
- IRIS ADAM, Business Analyst — Natural Law
- PETER MIGUEL CAMEJO, Financial Investment Advisor — Green
- Write-In

LIEUTENANT GOVERNOR
Vote for One
- PAT WRIGHT, Ferret Legalization Coordinator — Libertarian
- PAUL JERRY HANNOSH, Educator/Businessman — Reform
- BRUCE MC PHERSON, California State Senator — Republican
- KALEE PRZYBYLAK, Public Relations Director — Natural Law
- CRUZ M. BUSTAMANTE, Lieutenant Governor — Democratic
- JIM KING, Real Estate Broker — American Independent
- DONNA J. WARREN, Certified Financial Manager — Green
- Write-In

INSURANCE COMMISSIONER
Vote for One
- DALE F. OGDEN, Insurance Consultant/Actuary — Libertarian
- DAVID I. SHEIDLOWER, Financial Services Executive — Green
- GARY MENDOZA, Businessman — Republican
- JOHN GARAMENDI, Rancher — Democratic
- STEVE KLEIN, Businessman — American Independent
- RAUL CALDERON, JR., Health Researcher/Educator — Natural Law
- Write-In

MEMBER, STATE BOARD OF EQUALIZATION
2ND District
Vote for One
- TOM Y. SANTOS, Tax Consultant/Realtor — Democratic
- BILL LEONARD, State Lawmaker/Businessman — Republican
- Write-In

UNITED STATES REPRESENTATIVE
24TH District
Vote for One
- ELTON GALLEGLY, U.S. Representative — Republican

FOR ASSOCIATE JUSTICE, COURT OF APPEAL
2nd APPELLATE DISTRICT, DIVISION TWO
Shall ASSOCIATE JUSTICE JUDITH M. ASHMANN be elected to the office for the term prescribed by law? ○ YES ○ NO

FOR ASSOCIATE JUSTICE, COURT OF APPEAL
2nd APPELLATE DISTRICT, DIVISION TWO
Shall ASSOCIATE JUSTICE KATHRYN DOI TODD be elected to the office for the term prescribed by law? ○ YES ○ NO

FOR PRESIDING JUSTICE, COURT OF APPEAL
2nd APPELLATE DISTRICT, DIVISION THREE
Shall PRESIDING JUSTICE JOAN DEMPSEY KLEIN be elected to the office for the term prescribed by law? ○ YES ○ NO

FOR ASSOCIATE JUSTICE, COURT OF APPEAL
2nd APPELLATE DISTRICT, DIVISION FOUR
Shall ASSOCIATE JUSTICE GARY HASTINGS be elected to the office for the term prescribed by law? ○ YES ○ NO

Because the ballot papers are so big and voters get to make their mark on so many elected officials there is a tendency for the average voter to cast a ballot down the party lines. That is why the **Republic v Democrat** system is so important.

More interestingly voters do not directly elect the President or Vice President.

The votes are given to **Electoral Colleges** that then vote for the President. These are the bodies that the founding fathers of the US set up to elect the President. In 1787, at the Constitutional Convention the so called Virginian Plan called for Congress to elect the President. Instead though a formula was devised that gave states the same number of votes as they had representatives in Congress. A popular vote was dismissed as there was a huge prevalence of slavery in the south. It was determined and has remained ever since.

There is a total of 538 Electoral colleges amongst the 50 states. To win a candidate must get 270 Electoral College votes.

Electoral Colleges are determined mainly by population although each state has at least three. California has 55 college votes. Texas 38 and New York and Florida 29 making them the most important and the largest number.

Whoever wins the most votes in a state gets all the college votes and this is then the determining factor in the decision for President.

These **electors meet on December 17th** to formally vote on who becomes the President.

Over the years there have been many **criticisms** of the electoral voting system. In 2000 **Al Gore** won the most votes but George W won more colleges when the contentious Florida decision was taken into account. There were three other elections where the electoral colleges produced a different result to the popular result.

Why have the vote on a Tuesday?

Because the US was a largely agricultural society back in the 19th century, the powers that be decided that a Tuesday gave people enough time after the Biblical Sabbath to get to the polling booth at the county seat in their horse drawn carriages and that it did not interfere with market day which was usually on a Wednesday.

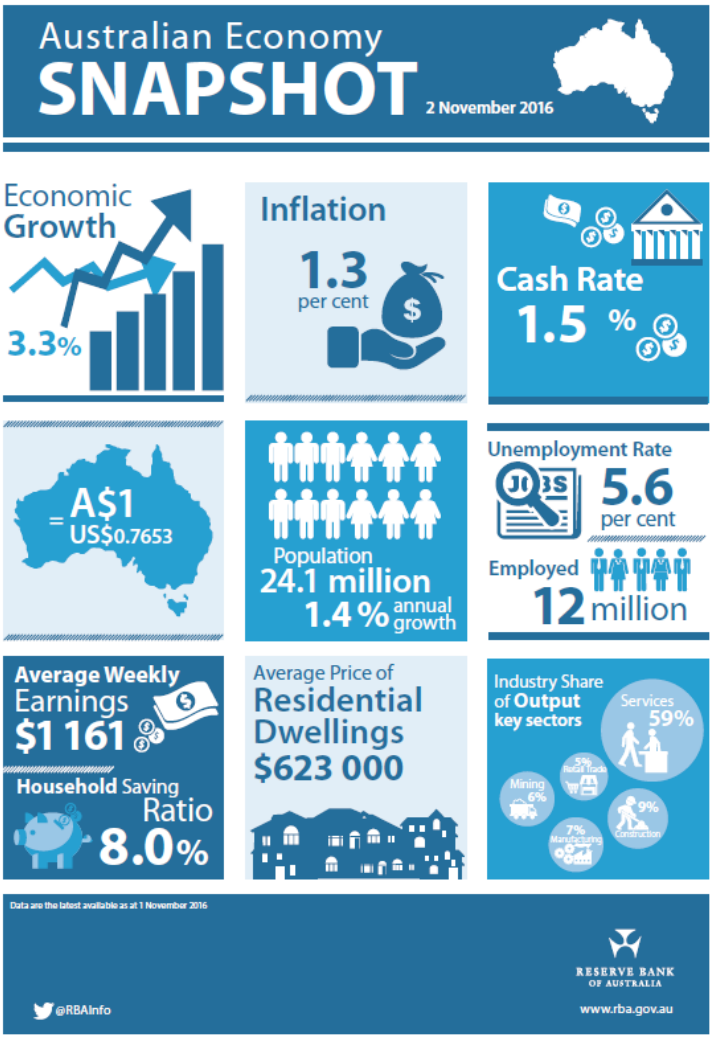
There have been moves to change it as the voting turn out is low and has been blamed on the Tuesday vote.

Why do US Presidents only get to serve two terms?

There was nothing in the **original rules** from the founding fathers to prohibit it. The change came about in **1947** with the Republicans demanded a change to the constitution to ensure that Franklin Roosevelt could not run again. He remains the **only president** to serve more than two terms He was President from 1933 to 1945. They were concerned to dismantle his legacy and moved Amendment 22 to ensure that no President could have more than two turns.

Economic Snapshot

The RBA has released its Snapshot of the Australian economy



Who hit the "pause" button on retirement

Source—Peter Kelly

During the recent school holidays, I was walking past a playground on my way to a meeting.

The thing that struck me was not so much the number of children enjoying the fresh air on pleasant Queensland winters day, but the number of older people caring for those children.

Sure, there were a few younger mums and dads, but there were significantly more 'old folk' who I suspect were all grandparents.

It is great that grandparents can spend quality time with their grandchildren. After all, we often hear people saying that their reason for retiring is so they can spend more time with their families.

However; I wonder how many grandparents are spending their retirement years taking on the role of full (or part) time carer for their grandchildren.

Not too misunderstand me though, but I got to wondering, are grandparents spending more time caring for grandkids out of a sense of 'obligation'? Or would they rather spend their time in retirement being, well, more selfish?

Retirement is a precious and finite time. We are generally living much longer than our own grandparents did; but as we age we become more limited in our ability to pursue our own adventures, like trekking through Patagonia, spending a year in Provence, or perhaps, significant time spent under the Tuscan sun.

However, what if your plans for pursuing some of these lifetime dreams are put on hold out of a sense of obligation to your family?

There is a very fine balance between helping your family, and ignoring your dreams altogether.

I'm not sure where the answer lies, but having an open and honest conversation with your family should be at the top of the list. You need to nip any sense of obligation (or duty) in the bud, and sooner rather than later.

Help your family whenever you can. Everyone will benefit from it, and your grandchildren will reap the rewards from spending time and learning from their elders. Do it because you want to, not because you feel you must. In addition, negotiate time for yourselves. Whether it is a week, a month or even a year, pursue your dreams and ensure that nobody puts your retirement on hold.

However, it doesn't stop with caring for grandchildren. Today's retirees have become the 'carers of both the young and the old'.

Many people entering retirement find that they not only have grandchildren to share their time with, but they also have one or more parents (or older relatives) in a frail stage of life.

Caring for older parents, and the sense of obligation that follows, can place considerable pressure on relationships at a time in life when you should be looking forward to pursuing your own dreams and passions.

Once again, the answer must be in establishing a balance. Balancing your needs with the needs of family. You cannot put your retirement 'on hold' indefinitely. I feel the answer lies in having open conversations with family members and agreeing to 'share the load' in a fair, and equitable, way.

Self-Managed Super Funds (SMSF)

Are you considering opening a SMSF?

Do you know what your obligations as a trustee are if you open a SMSF?

Is a SMSF appropriate for you? – we have developed a SMSF Questionnaire to help determine the answer.

www.pinnaclewm.com.au/resources/smsf/

Did you know that Chris Launer is a SMSF Specialist Adviser?

We encourage anyone thinking about opening a SMSF to contact our office and discuss your options with Chris Launer, as there are many important factors to take into consideration.

If you're attracted by what you've read here, have any questions, feedback about the Pinnacle Viewpoint or would like to discuss your financial situation, we invite you to take advantage of a no-obligation, free consultation to find out whether a relationship with Pinnacle maybe for you. No matter what you decide, it's bound to be a rewarding experience.

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