



No Surprises

The current expectations for the 2016 Budget, which will be released later this month, are underwhelming. The word “boring” gets bandied about, quite often from those who support the Budget. The Prime Minister, when describing the 2016 Budget, said “there’s nothing that will surprise people in the budget”¹.

Investors also need to take stock of their financial position on a regular basis. The extent of that review will depend on your overall situation. You may question why this needs to be done. The answer is that it should confirm that there are no surprises in your personal budget. When you prepare a personal budget, you can be surprised by how some of the small costs add up. Buying a regular coffee, while a small amount individually, can add up to a large sum annually.

Likewise, try adding up other discretionary spending, and see what it adds to for the year. If you don’t know what the overall costs are, how can you know whether there is a problem?

You may decide that your spending is justifiable. This is completely acceptable as it’s your income after all. The important point is that you are making a decision based on complete factual information.

So why are we focusing on getting complete factual information about your own position. Surely investors should be getting better information about their investments?

Below is a short list of major events/issues that are facing investors²:

- **The US Presidential election:** Will Donald Trump win? What will his policies be? How will other countries react? What will it do to US consumer and business sentiment, the US sharemarket etc.?
- **Tightening US monetary policy:** How will the housing market, consumer spending, business investment react? How much tightening will occur?
- **UK June 23 referendum on EU membership:** Will people vote to leave? What will the economic impact be over what period of time? By how much are forecasts of the costs of Brexit overblown?
- **China’s economy:** The old drivers of surging exports, cheap labour, and construction have weakened but household spending and services are not rising strongly enough to deliver confidence that employment growth will remain strong. How slow really is growth now? How bad is the debt situation? What extra stimulatory measures will be taken? When will over-production of many subsidised products cease?
- **Australia’s general election on July 2:** Will Labour win and how quickly will tax rates then be put up with

what impact on business sentiment, migration flows across the Tasman etc.? Will the budget deficit track in Australia lead to the government’s credit rating being cut?

- **Europe:** Can Europe’s recently improved growth rate really consolidate higher without economic reforms which EU members are unwilling to implement? Will the ECB extend money printing?

These are just the headline uncertainties! Imagine what they would be if you started looking at individual companies or investments. Investments will, by definition, have an element of uncertainty. Investors need to accept that there is uncertainty in their investments, but this does not mean they should not take any opportunity to ensure certainty in their own situation.

The reason we encourage you to focus on your personal situation is that this is the one area you have control and an element of certainty. Investors face enough uncertainty already. The last thing they need is an unpleasant surprise in an area that they could have controlled.

¹ John Key, 26 April 2016 reported by NZ Newswire

² Sourced from BNZ Weekly Overview by Tony Alexander, 12 May 2016