

### 2014 good for most investors

Major asset classes generate positive returns



### Rotation out of term deposits

Deposits reach record highs for Australian investors



### Retirement villages and aged care

Considering downsizing?  
A number of factors to consider



### Interest rate predictions

The Big 4 banks put out their predictions



# Insight

## Falling oil prices – cause and effect

What has caused the oil price to collapse?

**Global supply of oil has surged relative to demand. In the last decade we saw the price of oil go from \$US10 per barrel in 1998 to \$US145 in 2008.**

This sharp rise in oil prices encouraged greater fuel efficiencies (such as smaller cars, use of ethanol, electric cars but somewhat more importantly it encouraged the development of new sources of oil. US shale oil production is a significant example which has boosted oil production back to 1980s levels.



### Key Points

- Oil prices have fallen by more than 50% over the last 12 months as a result of a surge in supply.
- Low oil prices are negative for energy companies which have weighed on share markets around the world. It will be a positive for growth in industrial countries such as Asia and Australia which should help drive share markets higher by years end.

Continued on page 3...

# 2014 good for most investors



**2014 saw all major asset classes generate positive returns and beat cash and inflation rates, as was the case in 2013 and 2012. Slowing economies, recessions, war in the Middle East, the continual threat of terrorism, fears of deflation in Europe and of rate hikes in the US did not prevent 2014 being a good year for investors.**

Share Markets globally had a good year, driven by low interest rates and cost cutting.

Commodities however didn't fare so well. Due to an oversupply, most commodity prices collapsed in 2014, which hit Australia's overweight mining sector, and therefore also hit tax revenues hard, sending government budgets into huge deficit, adversely affecting consumer and business confidence and spending. Falling prices are also causing mines to be closed and new projects delayed or cancelled.

Asset Class	Index	01/01/2014	31/01/2014	% Change
Cash	RBA Cash Rate	2.5%	2.5%	Nil
Australian Shares	ASX 200	5,352.20	5,411.00	1.1%
International Shares	MSCI World	118.54	136.73	15.3%
Listed Property	S&P ASX 200 A-Reit	984.90	1,186.20	20.4%
Oil	WTI crude	98.17	53.45	-45.5%
Currency	AUD/USD	0.8926	0.8157	-8.6%

**Returns for Australian Shares, International Shares and Listed Property shown in the table above, do not include dividends that were received.**

## Rotation out of term deposits



**Following the Global Financial Crisis, the value of term deposits held by Australian investors reached record highs as investors redeemed money from more volatile investments to move into safe investments.**

Commentators have suggested that some of the recent strength in the Australian share market is a result of money being withdrawn from term deposits and invested into the share market. This commentary appears to be somewhat misguided.

*The value of term deposits in Australia remains at record levels.*

It is true that there hasn't been growth in term deposit values over the last 18 months rather a stabilisation of value, however there has been no material fall in the amount of funds invested

in term deposits. This is somewhat surprising given the low interest rates and good returns from share markets and property markets.

Further downward pressure on term deposit rates seems likely given lower refinancing costs of International funding markets, which means banks are again able to fund their loan books at a lower cost through wholesale funding rather than relying on term deposits. We expect investors will rapidly become unsatisfied with term deposits in the low 3%'s and the rotation out of term deposits searching for higher returns will begin in 2015.

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Falling oil prices continued...

## Other factors in the oil price collapse include...

- Appreciation of the \$US as a result of improved economic conditions in the US. As most commodities are priced in \$US this strengthening of the \$US has brought down their prices.
- Slowing growth in emerging markets. As growth slows in some of the emerging countries such as China, we are seeing a reduction in the demand for oil.

Overall it appears the main factor is the surge in supply. In fact it was arguably OPEC's decision in November not to cut production, rather maintain and try to force other producers to cut production that has accelerated this fall in prices.

## How low can we go?

During the GFC oil prices plunged 78%, while in the 1980's and 1990's oil price fell more than 70%. Therefore it's not unreasonable to think a fall back to \$US40 per barrel (75% fall from 2008) is possible. At these prices it would start to force supply cutbacks amongst more marginal producers.

## What happens when oil prices are low?

There are positive and negative implications as a result of lower oil prices.

Generally lower oil prices are a huge positive for the global economy. As oil prices fall, business costs also fall as a result of lower fuel costs. This also provides a boost to households spending power.

Lower energy prices will also bear down further on inflation which in turn will mean greater pressure on China, Japan and Europe for further easing in monetary policy as well as likely delaying the US Fed's first rate increase.

For Australian households, lower oil prices points towards further downward pressure on petrol towards \$1 per litre, in fact some service stations have already dropped the petrol price to 99.9 cents per litre. Should these prices become regular this equates to an annual saving of approximately \$1000 a year. Likely leading to some of this savings being spent, boosting other sectors of the economy.

## Implications for share markets

Share Markets have initially reacted negatively to the fall in oil prices due to the negative impact on energy producers such as Santos and Woodside.

However it is likely that over time the positive impact on global growth and profits from lower oil prices will dominate and this will help drive share markets higher by the end of 2015.

As a result any significant drop in share prices in response to lower oil prices should be seen as a buying opportunity.



## Financial food for thought...

*"A good financial plan is a road map that shows us exactly how the choices we make today will affect our future"*



# Retirement villages & aged care



## When considering downsizing your home and moving into a Retirement Village there are a number of factors to consider.

Finding the Village you want to live in, the financial implications of moving, ownership options available and the ongoing financial commitments are all important things to understand.

If you or someone you know is considering moving into a Retirement Village, we have prepared a Brochure which outlines the steps that need to be taken and where to find the answers to help make an informed decision.

### Aged Care

Whether considering options for yourself or deciding how best to help someone close to you, aged care is a complex area and requires careful thought, especially following changes that came into effect from 1 July 2014.

The uncertainty surrounding where to move, how much it will cost and where the money will come from can be overwhelming.

**We have also prepared a specialist brochure outlining all the things you need to consider about Aged Care.**

For a copy of either brochure visit our website

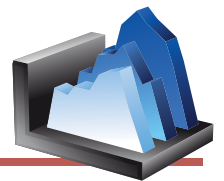
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and we can arrange for one to be posted to you, your family member or friend.



# Interest rate predictions



**In December 2014 the Big 4 banks put out their predictions for interest rates for the 2015 calendar year. The current cash rate set by the Reserve Bank is 2.50%.**

Their predictions are:

Bank	Prediction	Rate to reduce to
<b>Westpac</b>	2 x 0.25% cuts	2.00%
<b>NAB</b>	2 x 0.25% cuts	2.00%
<b>ANZ</b>	2 x 0.25% cuts	2.00%
<b>CBA</b>	No cuts	

If the majority prove to be correct this is good news for borrowers but bad news for term deposit investors.

In the past 2 months we have already seen term deposit rates falling as the banks factor in their expectation of falling rates.

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