INVESTING INSIGHTS

WITH TONY ALEXANDER Independent Economist

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2022

Sharesies

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Investors are cautious but remain optimistic

Monday 28 February 2022

Each month I invite more than 25,000 people to give their thoughts regarding management of their personal wealth. The aim is primarily to track changes in asset preference shifts over time. But we can also gain interesting insights into the way people plan to buy equities, the types of property and equities sought, using an advisor compared with using an app, active versus passive funds management, and which countries people prefer to invest in.

February's survey shows that people retain strong intentions of adding to their investments in the coming year outside of residential property. The most favoured assets for portfolio additions are shares either directly or through managed funds and ETFs. Debt reduction is also well favoured and perhaps as interest rates rise, this area will increase in importance.

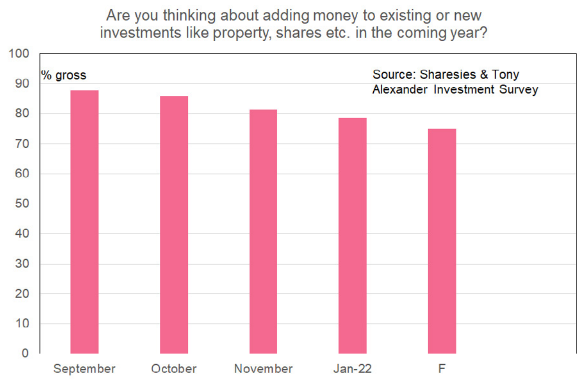
There might be a slight shift in demand for crypto assets underway.

This month we introduce some analysis of asset preferences broken down by different age groups. Doing so allows us to see how crypto demand is highly influenced by one's age, and that young people remain at risk of repeating a key mistake many made early in 2020.

I am not a financial advisor, and nothing written here is intended as advice for any individual or group.

Are you thinking about adding money to existing or new investments like property, shares etc. in the coming year?

There is a downward trend underway in the proportion of people planning to boost their investments in the year ahead. From 88% in September, the proportion planning more investing now stands at 75%.



Why might investing intentions be declining? First, it pays to note that at 75% the proportion of our 1,244 respondents planning to boost investments remains very high.

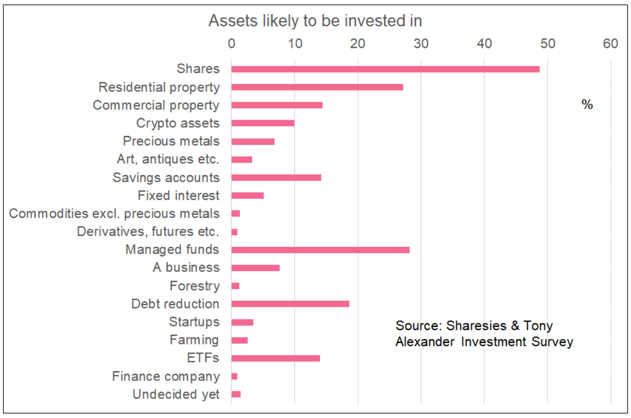
A key factor at work is likely to be rising interest rates which are bringing caution about expectations for returns and the pricing of all wealth products that are priced at other than a short-term interest rate.

This includes shares, property, plus the other assets we cover.

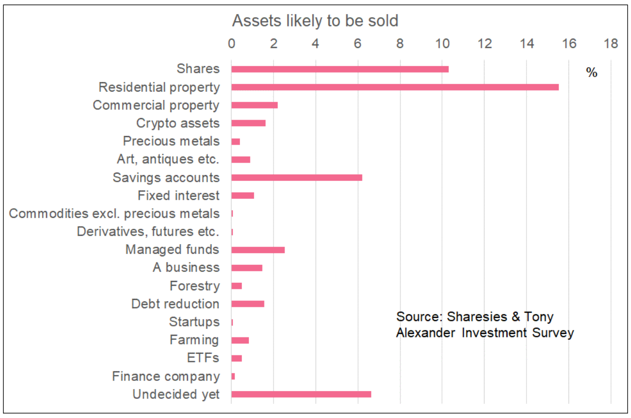
If so, which assets are you likely to invest more in?

We ask people about the assets they plan to buy more of and those they plan to sell some of. The first graph here covers the former, the second the latter.

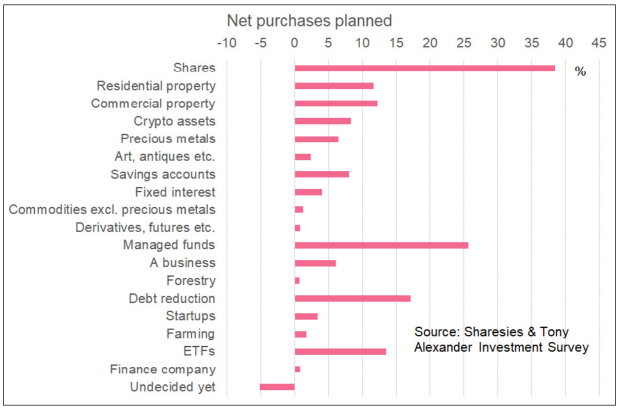
We can see that 49% plan buying more shares, 27% residential property, and 14% commercial property.



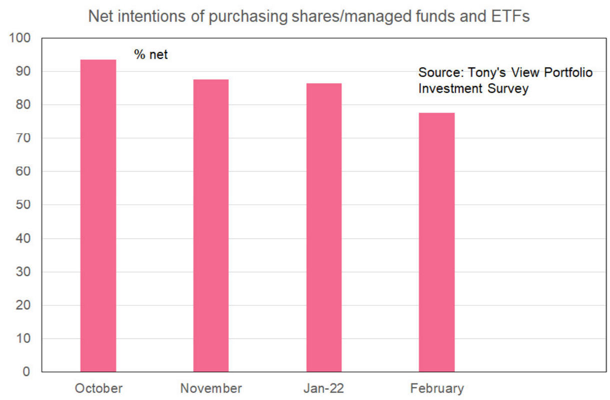
However in the next graph, only 10% of respondents plan selling some shares whereas 16% plan selling residential property assets.



We can offset these intentions against each other to produce the following graph which shows net intentions for purchasing the various assets we track. We can see that shares, managed funds, and exchange-traded funds (ETFs) are highly favoured, along with debt reduction.

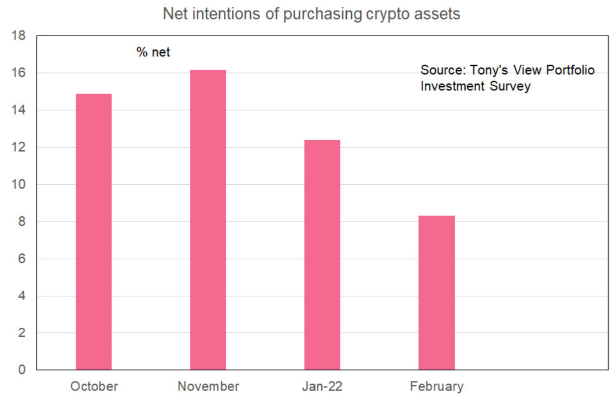


These are early days yet and caution is required, but we can now start to look at trends over time for intentions to purchase different types of assets. Let's start with broadly defined intentions of buying shares as captured, by adding together the choices of shares, managed funds, and ETFs.



The trend is very mildly down probably due to recent volatility in sharemarkets, and expectations of monetary policies tightening in many countries. It has been many years since interest rates rose over a sustained period and it is understandable that there will be caution as to what the impact will be on economic growth rates, business profitability, and ultimately the target of inflation.

Recent extreme volatility in prices for the likes of Bitcoin along with some investors anticipating a price impact when interest rates go up in the United States, may help account for the decrease in net plans to buy crypto assets such as currencies and non-fungible tokens (NFTs).

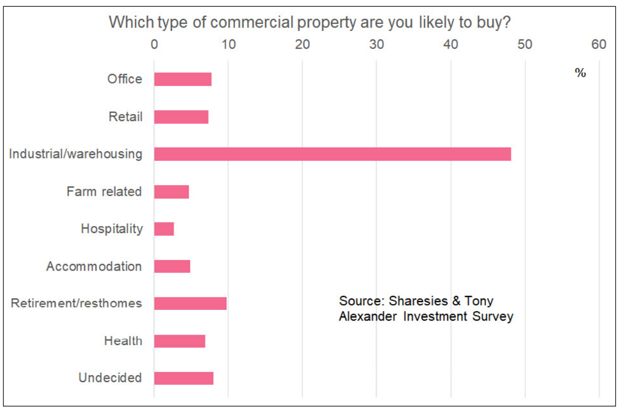


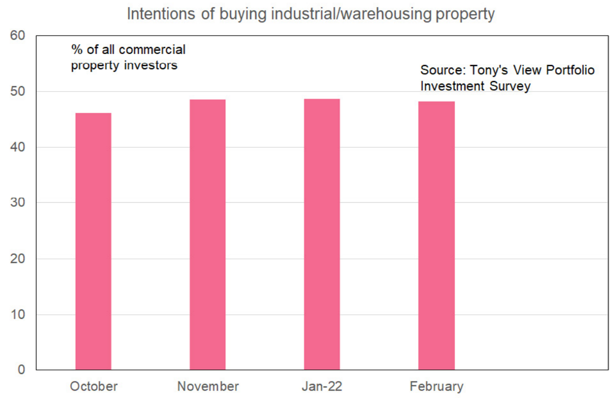
No other clear trends are emerging as yet for other asset types or the category of paying down debt.

If you are thinking about investing in commercial property, what type is it likely to be?

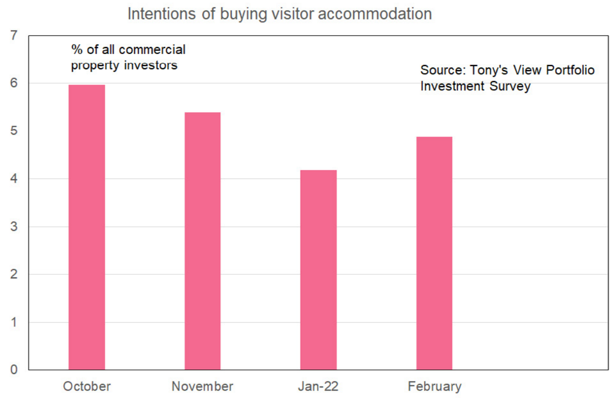
There is good demand around the world for commercial property investments and reports from offshore suggest that at the margin some investors are gravitating back towards office accommodation as work restrictions ease off.

But here In New Zealand there is no indication as yet that this is happening with a reasonably constant 7-9% of respondents in recent surveys planning to purchase property saying they will target office space. High demand for industrial/ warehousing properties continues, as shown in both of the following graphs.



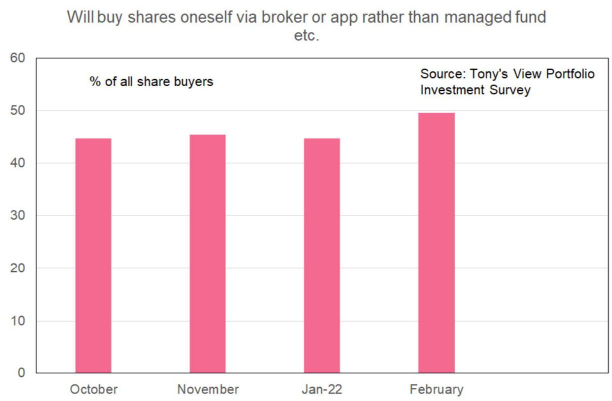


One or two anecdotes recently have suggested some buyer interest in visitor accommodation. This is hinted at in our survey.



If you are thinking about investing in shares, how?

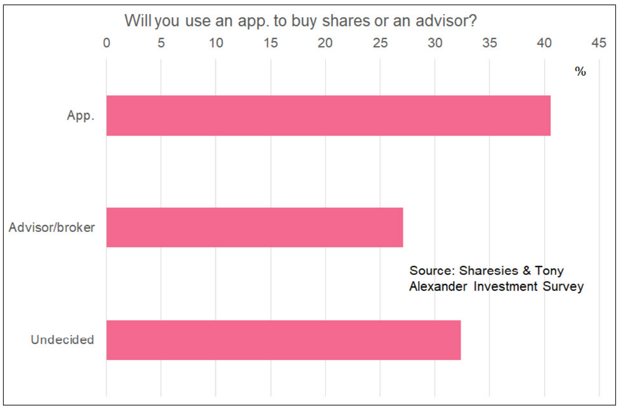
There has been a rise this month in the proportion of people looking at buying shares who will do so themselves through a broker or app rather than invest in a managed fund.



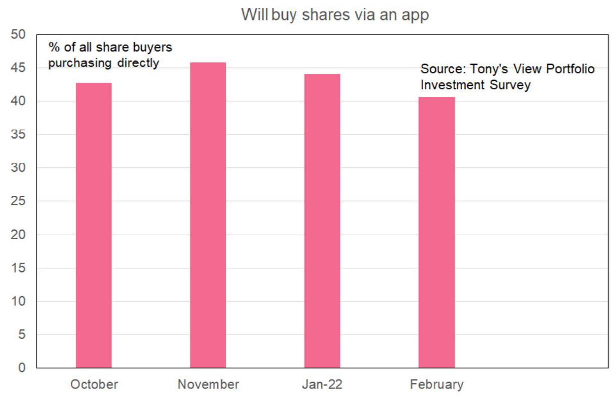
Sharesies

Will you use an app to buy shares or an advisor?

A high 41% of respondents looking to purchase shares directly, have indicated they will use an app while 27% would use a broker.



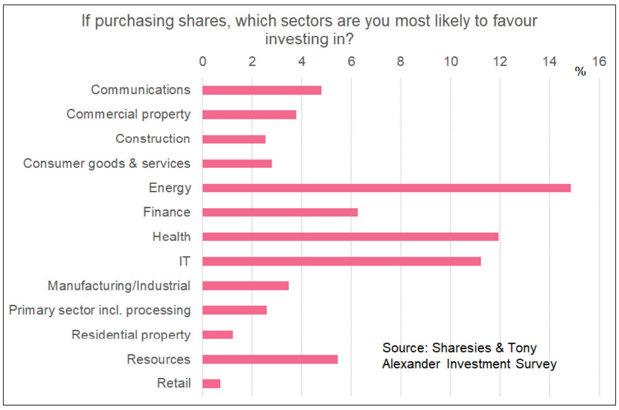
No trend change is apparent as yet in the proportion of people intending to buy shares directly who will use an app rather than a broker.



If purchasing shares, which sectors are you most likely to favour investing in?

With this question we are aiming to see change over time in the sectors which people may be showing preference toward. For the month of February, the results are as presented here.

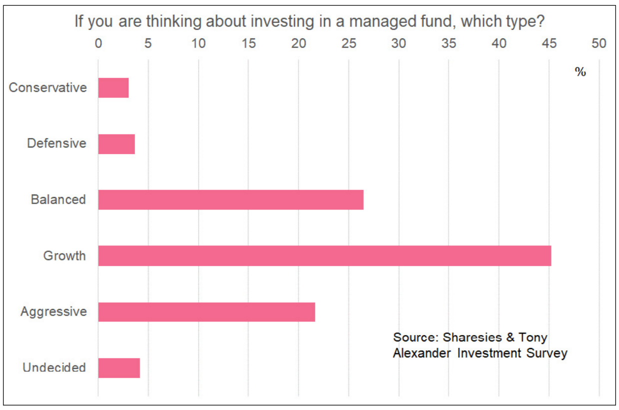
Energy, health, and IT remain the most favoured sectors. Are any trends yet apparent?



There is no trend change for any of the categories which people can choose from. People have clearly adopted some strong long-term focussed views on where value lies among the sectors present on the (largely New Zealand) sharemarket. Resources are preferred by 5% but in spite of renewed talk of a global commodity super-cycle, no shift towards this sector is apparent.

If you are thinking about investing in a managed fund, which type?

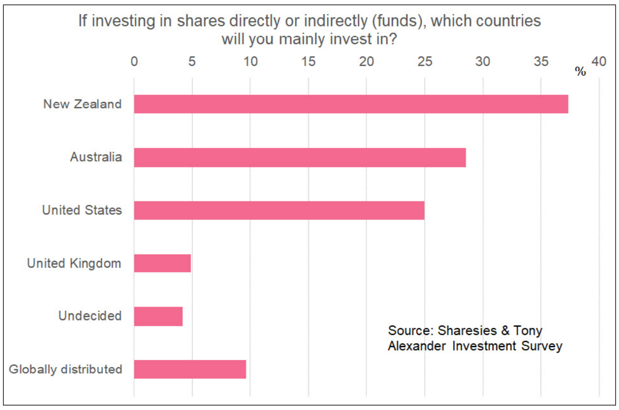
As yet we also see no trend changes underway in the types of managed fund which people are showing a preference toward. 22% of those planning to invest more in managed funds, favour those with an aggressive stance. This is little changed from 24% - 25% for each of the previous four months.



The proportion favouring growth funds oscillates without trend between 43% and 44%, while those favouring a conservative stance keep registering either 2% or 3% of responses. It's likely this proportion would have been much higher in the early days of the pandemic when we saw many young KiwiSaver investors switch from aggressive-type funds into conservative ones, locking in losses in prices already recorded and missing out on the subsequent rallies.

If investing in shares directly or indirectly (funds), which countries will you mainly invest in?

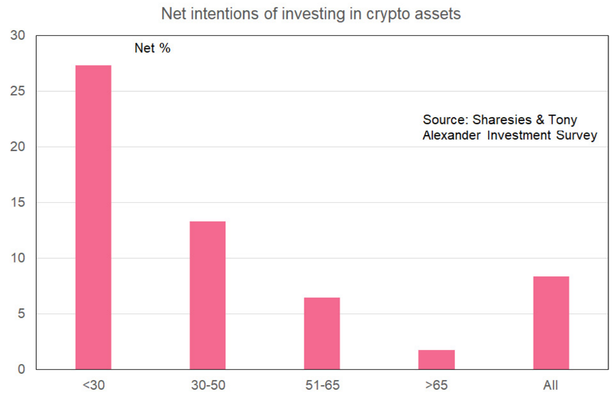
As yet we can observe no shifts in the countries which people are showing a preference toward when it comes to their fund investments. 37% favour New Zealand compared with 34% in October and 36% - 37% in the months since then. 25% prefer the United States, 29% Australia, and 5% the UK.



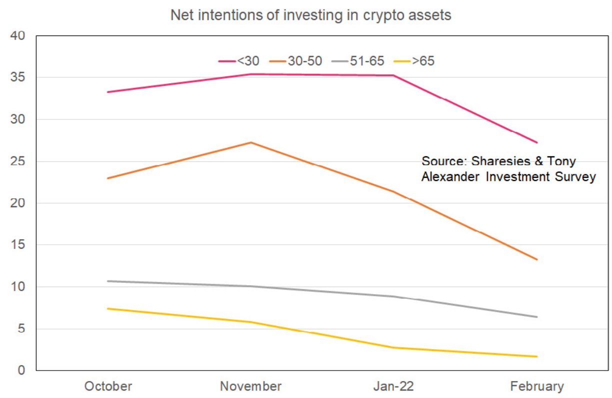
Age Differences

All of the survey results presented above reflect the entirety of February's more than 1,200 responses. But we can also look at the results broken down by the four different age brackets of respondents.

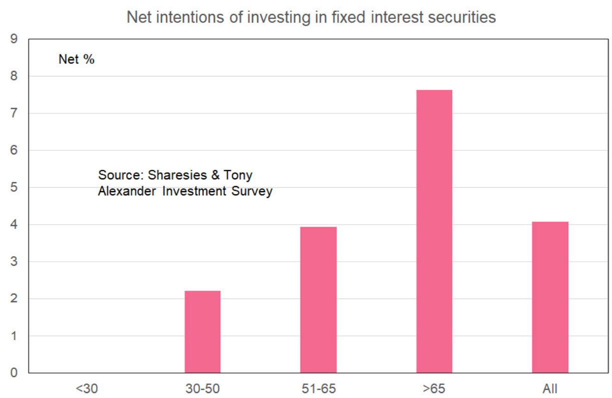
For instance, a net 27% of investors aged under 30 years plan to buy more crypto assets over the coming year compared with a net 13% of those aged 30-50, 6% of those aged 51-65, and just 2% of those aged over 65.



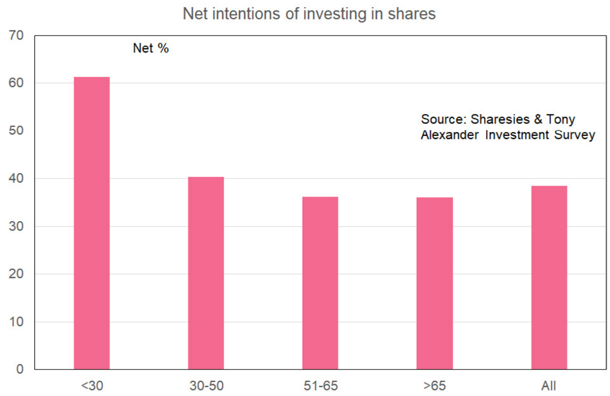
The recent decline in crypto purchase intentions has occurred across all age groups.



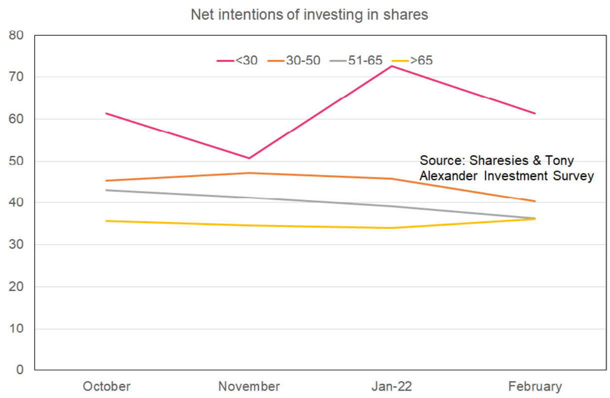
Now let's compare the age profile of investing intentions for crypto with the profile for fixed interest securities. The latter is a low risk asset and minimally favoured by younger investors given the low but steady long-term returns.



And finally, for equities the high net 61% purchasing intentions of young people will reflect expectations of strong gains over the long-term. Time frames for using invested funds get shorter the older one gets.



But this brings us to the final graph for this month's Investing Insights. It shows for each of the past four surveys the net share purchasing intentions of each of the four age groups we track. The point to note is the volatility in purchasing intentions of those aged under 30 years which is not displayed by those who are older.



The events of early-2020 when many younger people switched their KiwiSaver funds from growth to conservative profiles, are at risk of happening again the next time share markets undergo an inevitable correction.

Respondents to the survey were distributed by age as follows.

< 30 years	3.5%
30 – 50 years	33.3%
51 – 65 years	39.5%
Over 65 years	23.7%

Respondent investment assets, including savings but excluding family home:

Less than $500k	23%
$500k - $2mn	34%
$2mn - $5mn	25%
Over $5mn	18%

My aim in producing this publication is to help the growing number of average Kiwis looking to build an asset base over time for their retirement. If you want to discuss any particular product, business, or asset class then you'll need to do that with a Financial Advisor.

Additional information on the NZ economy is available from www.tonyalexander.nz