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INVESTING INSIGHTS

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Sharesies

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Investors look beyond market volatility

Thursday 31 March 2022

Each month I invite more than 26,000 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.

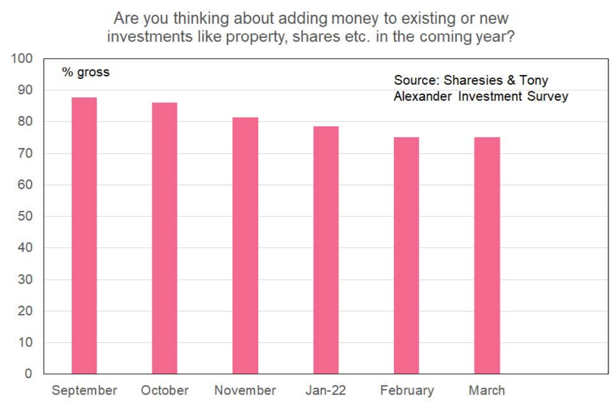
After several months of observations, a few trends are starting to become apparent. These include:

- A mild downward trend in people's intentions of investing in portfolio assets, possibly reflecting the rising cost of living and many new uncertain factors in play.
- No wave of investor selling of residential investment property is yet apparent, despite rising interest rates and evidence of prices falling.
- Investors in commercial property continue to strongly favour industrial/warehousing properties. But interest is rising in accommodation properties, perhaps encouraged by the border reopening to international travel.
- Share investors are increasingly favouring energy stocks.
- Recent high volatility in share prices has not dented the preference of managed fund investors for Growth and Aggressive type funds.
- A slight rise in interest in purchasing Australian shares.
- Those with larger portfolios more strongly favour commercial property and those with smaller portfolios are far more likely to purchase their shares using an app.

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?

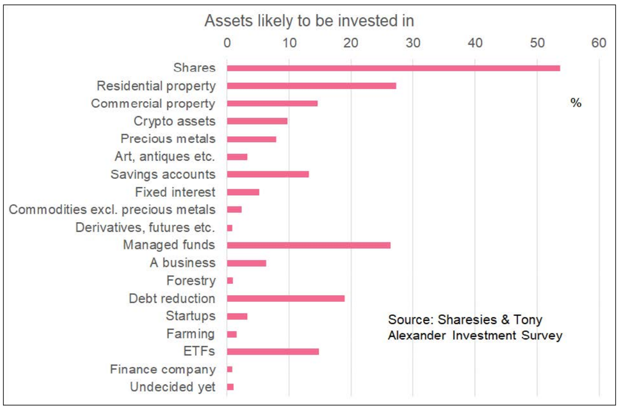
The world's financial, metals, energy, and food markets are being shaken by Russia's invasion of Ukraine and the resulting disturbances to flows of many commodities. Yet still a gross 75% of our survey respondents (total = 1,144) say they intend increasing their levels of investment in the coming year.

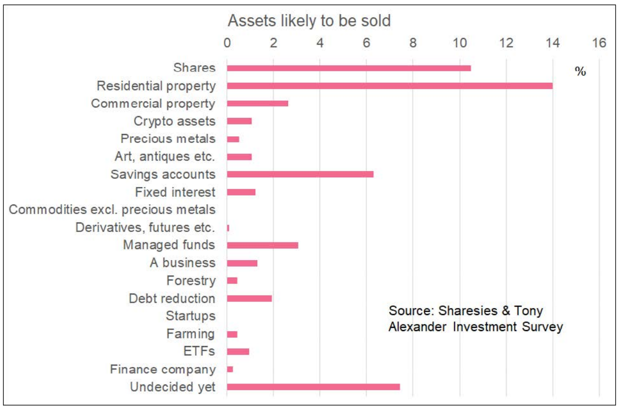


While intentions remain strong, there is a very mild downward trend, perhaps driven by the sharply rising cost of living which challenges the quantities of spare funds available each month to go into investment products.

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

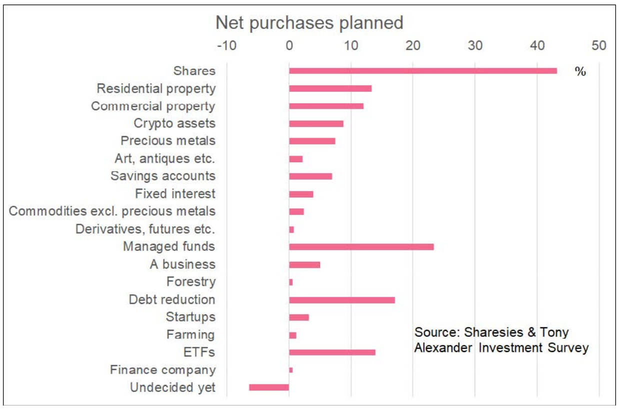
We ask people about the assets they plan to buy more of, and plan to sell some of. The first graph here covers the former, the second the latter.



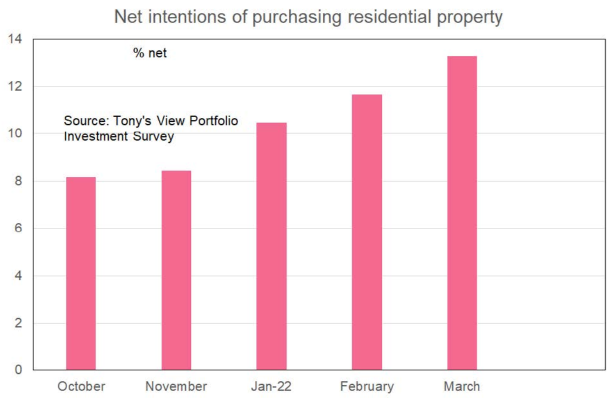


Shares are a highly flexible and tradeable investment, so each month a very high proportion of investors say they will buy and sell shares. Whereas residential property tends to be an investment people hold for the long-term.

Putting the buy and sell data sets together we can derive a calculation for each asset of the net intentions people for making a purchase.



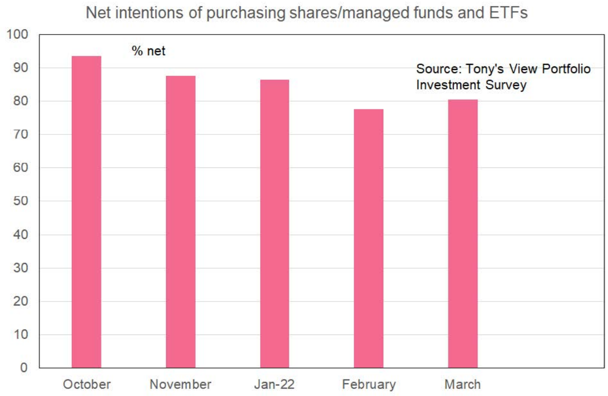
Purchase intentions are positive for all asset types, including residential property. Despite falling house prices and expectations revealed by agents in my survey with REINZ that prices will continue to fall, a net 13% of investors say they intend purchasing more residential property. Rather than a downward trend, it's actually upward.



This results not from more investors revealing an intention to buy residential property, but fewer intending to sell. It allows us to repeat a comment made many times since the end of March last year when tax rules for such investors were changed. And that is that there is no wave of investor selling coming in response to rule changes. There is also no wave coming in response to rising interest rates. A reason for this could be expectations of improving rental returns in an environment of rental property shortages.

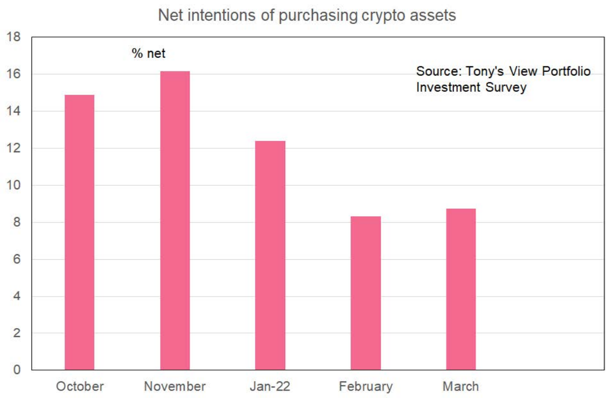
Nevertheless, many people have portfolios perhaps that are now "too" heavily weighted towards residential property. So in the coming year, some shifting towards other assets is likely.

Net intentions of purchasing shares through the various vehicles covered including: directly, through managed funds and ETFs, remain strong.

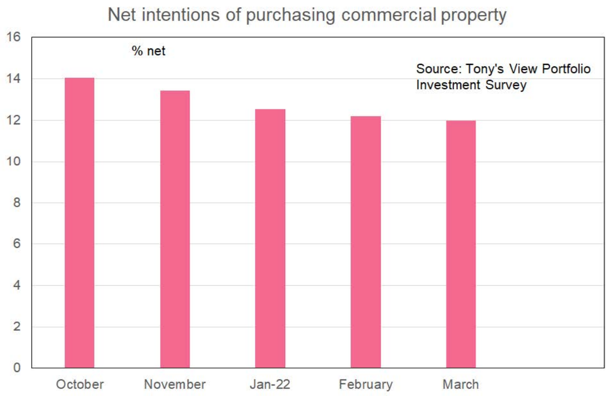


High volatility in sharemarkets has not altered the long-term focus which people have on holding equities.

Net intentions to purchase crypto assets have stabilised after dropping away last month, perhaps assisted by the rebound in some prices and comments about a digital currency made by President Joe Biden.

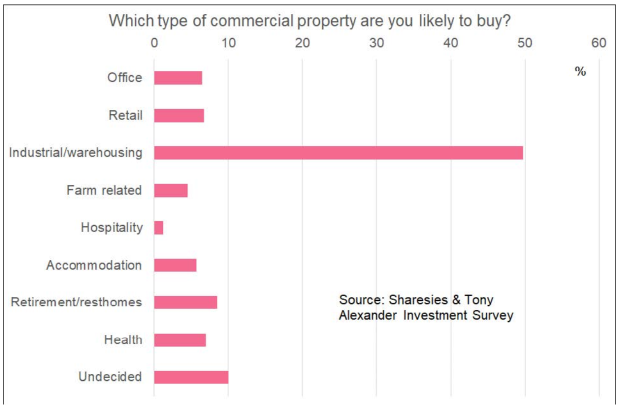


Net intentions to purchase commercial property also remain firm. Worries may rise about immediate growth prospects and global recession from high oil prices, but investors have learned to look through such things when considering commercial property holdings. Expectations that the extent of interest rate rises will be limited– despite the temporary soaring of inflation– will likely act as a cushioning factor for commercial property owners when considering their ongoing returns.



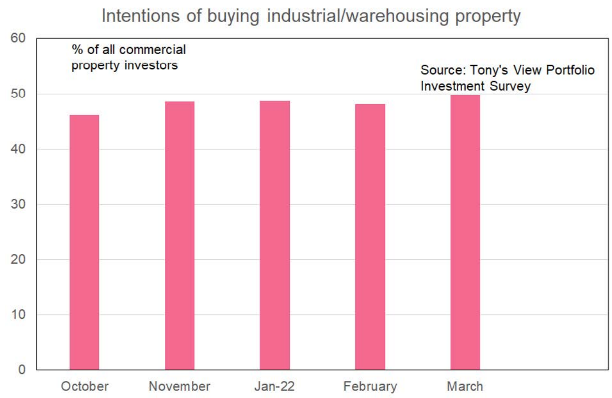
If you are thinking about investing in commercial property, what type is it likely to be?

For those investors looking at purchasing commercial property the desire for industrial/ warehousing assets remains as dominant as ever.

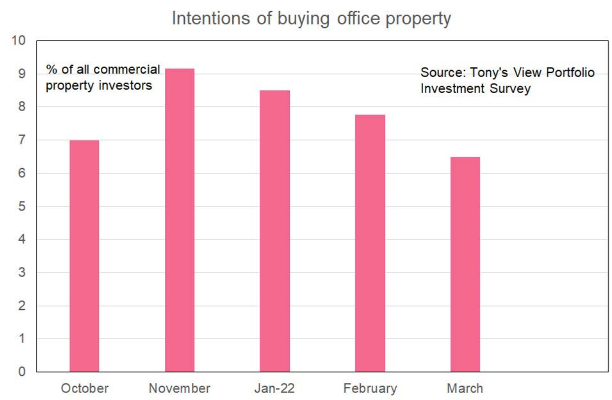


Around the world there's expansion of the distribution and storage sector in response to:

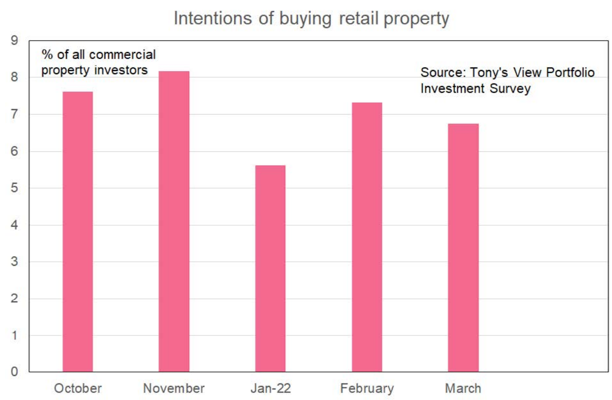
- increased online shopping
- a desire to move away from just-in-time inventory management systems amid continuing supply chain problems
- geopolitical considerations may be boosting desire for more nearby input storage.



Anticipation of the passing of the Omicron wave and the return of people to their offices is not apparent when we look at investor preferences for office accommodation. The trend remains slightly downward for this asset type despite evidence offshore of people returning to the CBD.



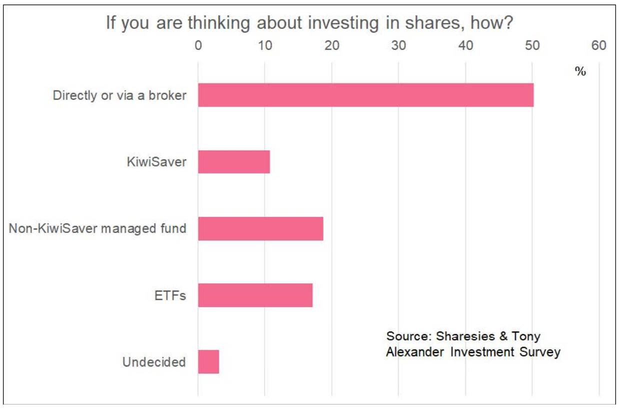
There is no upward trend evident either with regard to investing in retail property. Due to the soaring cost of living, rising interest rates, and an end to a two-year binge on large consumer goods, the post Omicron environment is unlikely to see a lift in retail spending for some time.



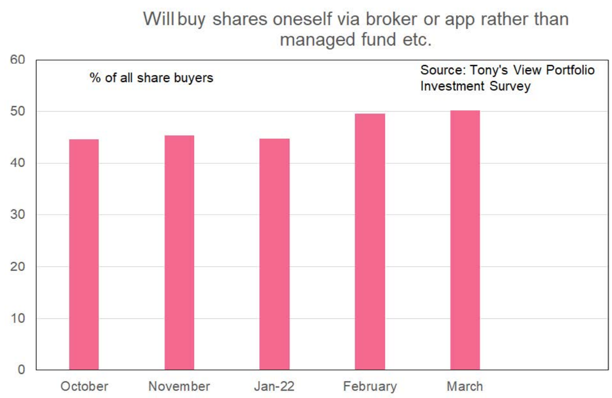
But has anticipation of the border's reopening led to increased interest in investing in visitor accommodation? The answer appears to be yes, with an upward trend in this particular measure.

If you are thinking about investing in shares, how?

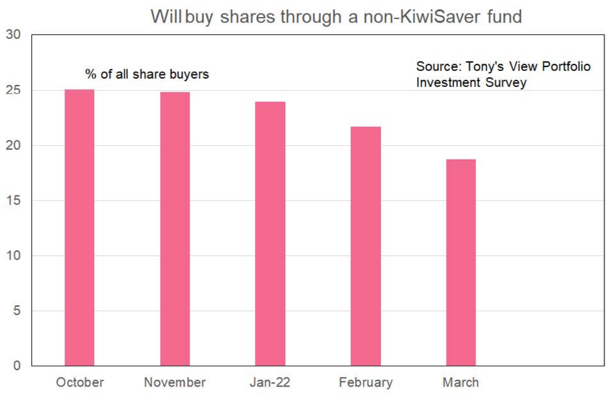
Most people looking at boosting their share holdings, indicate they intend doing so through choosing the shares themselves.



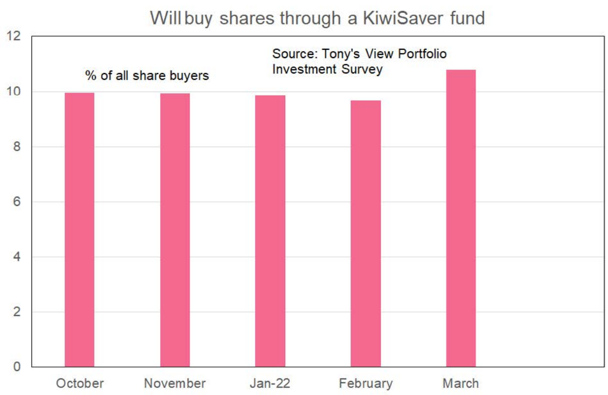
There is a slight upward trend in this self-selection proportion.



In contrast, there is a small declining trend in the proportion saying they will boost their share ownership by placing more funds in a non-KiwiSaver managed fund. It is not clear why this trend may be occuring.

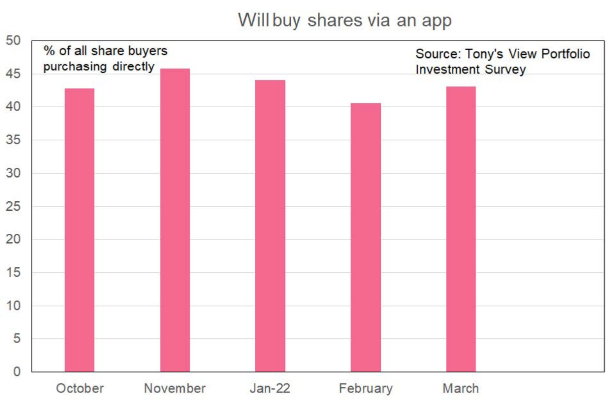


Investing through a KiwiSaver fund continues to trend down.



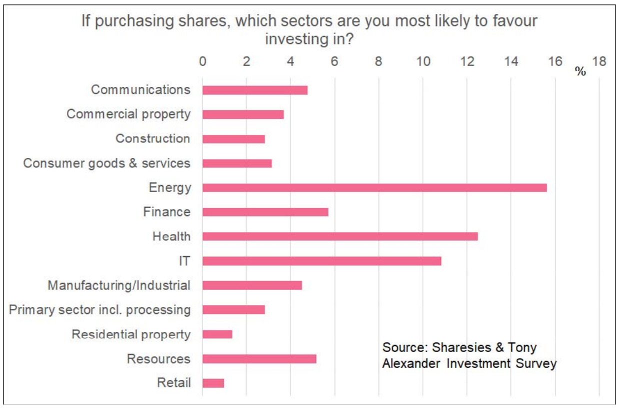
Will you use an app to buy shares or an advisor?

Among investors looking to make their own share selections, a continuing high 43% say they will use an app rather than a broker.



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

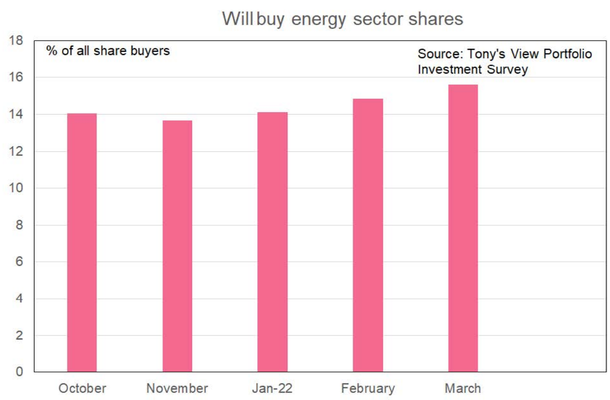
As before the energy, health, and IT sectors are most favoured.



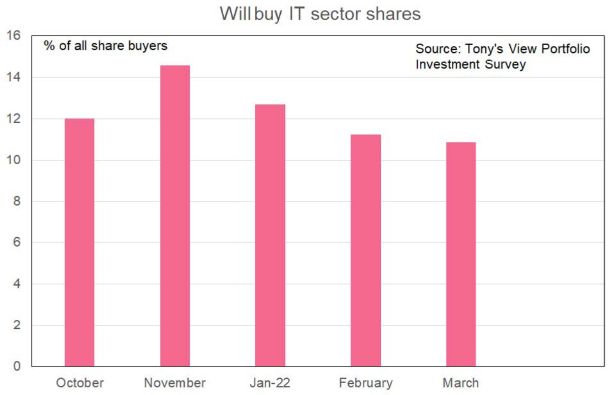
But are there trend changes in sector preferences as we contemplate

- the war
- the passing of the Omicron wave
- rising interest rates
- a housing market correction
- soaring cost of living
- the border reopening?

There is a mild upward trend in the proportion of people looking at investing in the energy sector. This might reflect the jump in energy prices in international markets and anticipation of a sharp lift in investment in renewable energy sources.



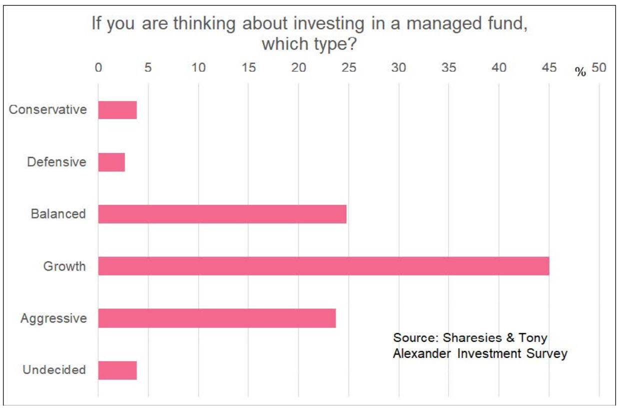
In contrast there is a small downward trend in preference for the tech sector.



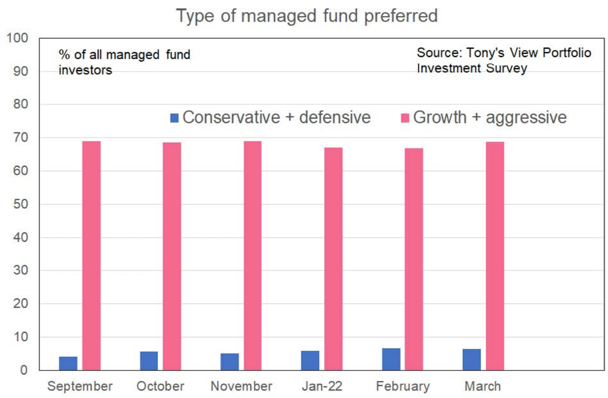
Changes are not frequent in the short-term. But we will be able to spot shifts in people's preferences, feelings, and actions as the economic, credit, and interest rate cycles progress and as new shocks appear and old ones fade.

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

For long-term investment goals people tend to retain their focus and look through the quick sentiment shifts at the margin which can sometimes happen. Just as a slight rise in the unemployment rate does not signify a big shift in the proportion of people who are in work, a large shift in share prices does not signal a large change in people's portfolio preferences overall.

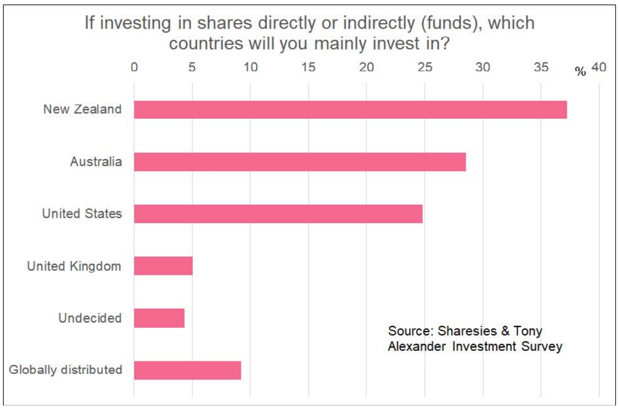


In March, the proportion of investors who favour conservative and defensive portfolios is basically unchanged from five months ago, as is the case for those who favour growth and aggressive funds.

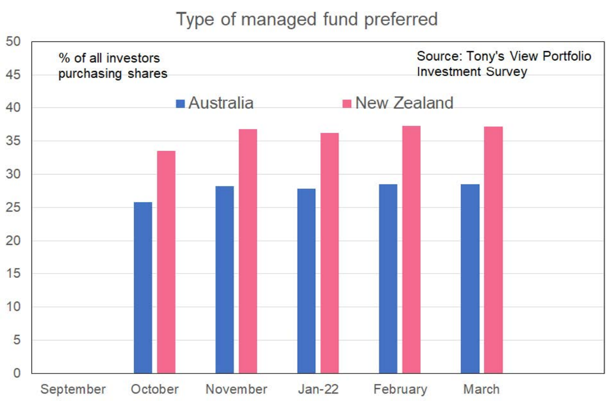


If investing in shares directly or indirectly (funds), which countries will you mainly invest in?

We ask this question just in case there is a substantial shift one day with regard to attitudes toward New Zealand's long-term prospects.



There is no trend towards shying away from New Zealand. But there does appear to be some slight increase in interest in Australian shares.



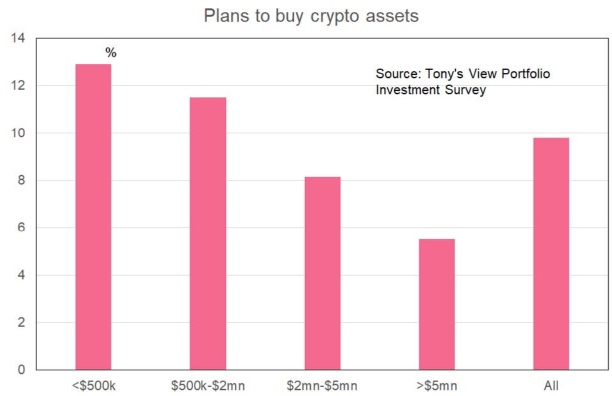
Portfolio size differences

Last month we looked at some of our key results broken down by the broad age group of the respondent. This month we briefly look at some measures on the basis of the quantity of invested funds people have.

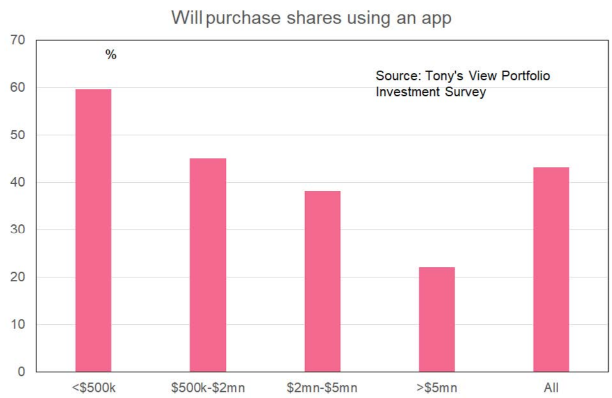
A breakdown of investment assets for survey respondents (including savings but excluding family home) are as follows:

Less than $500k	25.3%
$500k - $2mn	32%
$2mn - $5mn	25.1%
Over $5mn	17.7%

Unsurprisingly there are some clear differences in asset preferences. Those with smaller portfolios show greater interest in purchasing shares and crypto assets than those with large portfolios. Those with larger portfolios have a greater tendency to buy commercial property.



Smaller portfolio holders also show far greater inclination towards purchasing their shares using an app.



Respondents to the survey make up the following age groups.

< 30 years	3.5%
30 – 50 years	32.6%
51 – 65 years	41.4%
Over 65 years	22.5%

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.