NEWSLETTER

February 2021

AFFINITY WEALTH PLUS

Introduction

Happy New Year! We hope the summer period has been treating you well and that 2021 has kicked off in the right direction for you. We start our year of monthly newsletters with an analysis of what happened in the residential property market in 2020 and a recap of events – some of them quite extraordinary – in world share markets in January 2021. Enjoy!

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The Property Market

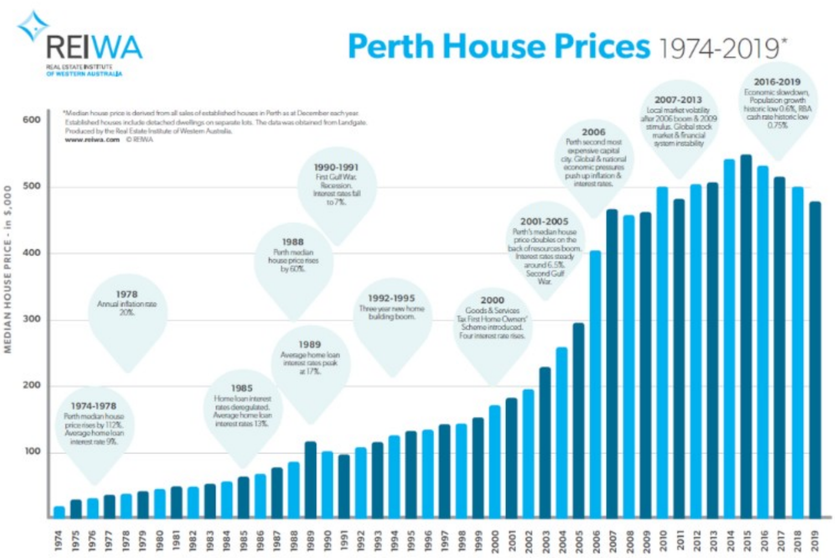
Australia's residential property markets defied expectations during 2020. There is no other way to put it. This was especially the case for houses, where every state and territory capital saw prices generally rise. With thanks to www.domain.com.au for both the data and the table, here is what happened in each of our capital cities:

HOUSES					
Capital city	Dec-20	Sep-20	Dec-19	QoQ	YoY
Sydney	$1,211,488	$1,156,090	$1,135,482	4.8%	6.7%
Melbourne	$936,073	$888,985	$900,940	5.3%	3.9%
Brisbane	$616,387	$611,606	$583,477	0.8%	5.6%
Adelaide	$574,264	$562,656	$541,022	2.1%	6.1%
Canberra	$855,530	$804,120	$784,459	6.4%	9.1%
Perth	$563,214	$546,560	$529,783	3.0%	6.3%
Hobart	$564,091	$531,594	$501,699	6.1%	12.4%
Darwin	$533,845	$521,712	$515,213	2.3%	3.6%
National	$852,940	$819,112	$806,360	4.1%	5.8%

Source: Domain House Price Report, December 2020 quarter

The column on the right is the most revealing. It shows positive moves in general house prices in every state and territory capital. In some ways, the price rises in individual cities related quite closely to that city's experience of Covid. Hobart, for example, was the only capital to see double digit growth. Canberra, which has only recorded 118 cases of Covid (source: ACT Health), saw price rises almost reach the double figures.

Perth provided a really interesting experience. Until this week, WA had not recorded a single case of community transmission in almost 10 months. During this period of good health, the residential property market corrected a five year slide in median prices, as shown in this table from the Real Estate Institute of Western Australia (which also shows the extraordinary impact of the mining boom in the 2000s):



The situation for units has not been as positive, although the national trend is still gently rising. The table on the right shows how www.domain.com.au reported the national situation with unit prices.

UNITS					
Capital city	Dec-20	Sep-20	Dec-19	QoQ	YoY
Sydney	$729,840	$728,535	$731,691	0.2%	-0.3%
Melbourne	$569,677	$545,581	$555,772	4.4%	2.5%
Brisbane	$395,218	$399,814	$407,573	-1.1%	-3.0%
Adelaide	$350,122	$350,122	$308,595	0.0%	13.5%
Canberra	$485,410	$471,299	$491,761	3.0%	-1.3%
Perth	$347,585	$339,614	$333,054	2.3%	4.4%
Hobart	$432,552	$428,306	$422,129	1.0%	2.5%
Darwin	$285,539	$283,893	$265,607	0.6%	7.5%
National	$574,245	$566,677	$569,261	1.3%	0.9%

Source: Domain House Price Report, December 2020 quarter

As can be seen, a number of capital cities actually recorded falls in unit prices, including a very slight fall in Australia's largest market, in Sydney. In general, the lower performance of units as against houses was probably attributable to a softening in demand for rental accommodation.

The data above concentrates on Australia's capital cities. Historically, price growth in our cities has outstripped growth in regional centres. This was not the case in 2020. In early January, the ABC reported data from property analyst CoreLogic stating that regional house prices had risen by approximately 7% on average during 2020. the strong growth in Hobart prices was echoed by growth in regional Tasmania of almost 12%. Prices in regional NSW and regional South Australia also grew by more than 8%. Almost certainly, this strong growth in regional house prices reflected the realisation for many people that working remotely reduces their need to live in a city. This has encouraged at least some people to seek out more affordable residential property outside of our major cities.

It has now been almost 12 months since the pandemic reached Australian shores. Initially, there was an expectation that the closure of Australia's borders to new immigrants would dampen demand for residential property and lower prices. Obviously, this has not been the effect. Amongst other things, it appears that the lower level of migration to Australia has been at least partially offset by an increased rate of return of expatriate Australians. In November, for example, the Australian Financial Review reported that up to 20% of skilled Australian expatriates had returned to Australia during 2020. The same article quoted the Australian government as saying that almost 400,000 Australians had returned in the period between March and November 2020.

Especially to the extent that these were skilled expatriates returning, who had money to spend on housing, this appears to have reduced or even eliminated the negative impact on house prices caused by the fact that Australia has received virtually no immigrants since the pandemic commenced.

2020 also saw an extraordinary increase in the rate at which Australian households saved their income. According to the Australian Bureau of Statistics, in the March 2020 quarter Australian households saved approximately 7.6% of their household income. In the June quarter, this rose to an extraordinary 22%, before falling back ever so slightly to 18.9% in the September quarter. Saved money tends to be used to purchase assets - as was also demonstrated by the fact that the Australian share market basically retained all its value during the 2020 year.

'Where to next for house prices' is the obvious question. Predicting short-term price movements is a fool's errand, but as vaccinations roll out and it becomes increasingly likely that the world will contain the COVID-19 virus, Australia's relative good performance in managing the pandemic is likely to see Australia return to its position as a highly favoured destination for international migrants. That is, as our international border reopens it seems reasonable to expect that there will be a long queue of people wanting to cross that border. Generally, this augurs well for property prices and so it would be a brave person who bets against the Australian residential property market for 2021.

The Share Market

Australia's share market essentially tracked sideways during January. Here is how the market performed, as measured by the ASX 200 and reported by Google:

The market finished the month just 20 points, or 0.3%, lower. This essentially mirrored the US experience, with their market rising 0.37% between January 1 and January 29 (as measured by the S&P 500).

Australia's market is now around 4% below it's all time high of 7,139 points set on February 21 2020. The market obviously has some underlying strength, as indicated by the performance of prices on Monday of this week (February 1). Taking its lead from a 1.9% fall in the US market on Friday January 29, our market fell by 1.4% in the first hour of trading on Monday. From there, however, it rose 2.2%, however, to finish the day 0.7% higher.

That said, we always caution against taking a short term view of the market. Monday may prove why this makes sense: in the time it took to make a cup of coffee and put a load of washing on, the market moved from pessimism to optimism.

Successful share market investing takes time and, in some ways, the temperament, to ignore the day-to-day fluctuations in market prices. This is because it is impossible to know what is about to happen to a share price. You might have seen some recent media reports about a US company named Gamestop. Gamestop has been caught in some really strange collective buying activity organised largely (and possibly illegally) via social media. The causes of this activity are too difficult to recount here (Stephen Bartholomeusz of the Fairfax Press does that for us in this article), but basically a collective of many small, individual investors decided to purchase shares in a company for whom various large hedge funds had 'bet' the share price was about to go down. This led to seriously silly pricing behaviour.

Have a look at the price graph for the month to close of business on February 1 (again, thanks to Google and the NYSE):

Having opened the month at $17.25 per share (all prices in this paragraph are in $US), the company's shares were already doing quite nicely by January 12. The market price closed that day at $19.95, showing a rise of 15.6% in just over a week. Then things got a little crazy. On January 13, prices rose to $31.40 and then rose again to $39.91 by close of trade on January 14. That is, prices had doubled in two days and risen 230% in two weeks. For the next week or so, things went sideways, before they started to rise again: 10% on January 21, 50% on January 22, 12% on January 25. Then, things got really interesting: prices basically doubled on January 26. From there, they *more* than doubled on January 27. At that stage, prices closed at $US347 per share. All that doubling meant that prices had actually risen by 2000% in a little over 3 weeks. They then fell by 44% on January 28, before rebounding 68% on January 29. They then fell by 31% on the first day of February. The moves were dizzying.

Things look even crazier if you take the analysis back over a one year period, not a one month period. Here is how the graph looks now (again, thanks to Google and the NSYE):

In the almost 12 month period from 3 Feb 2020 to it's peak on January 27, the price had risen 8700%!

Please note that all of this activity in the share market was completely unrelated to anything that was happening within the company. The company's known actual business performance was essentially the same at the end of January 2021 as it had been at the start of that month. This is well illustrated by the story of Australian investment manager David Paradice, whose fund had bought shares in the company worth $US9 million in 2014. According to the Fairfax/Nine report, Paradice's fund sold its shares for something around $US32 million in December 2020. This is a gain of more than 300%, which is a great return in seven years. The fund's managers would have been pretty pleased with themselves. But they sold just as the prices went ballistic. Had they not sold, that initial $US9 million stake would have peaked at well over $US1 billion.

Talk about the one that got away! Who would have thought netting a capital gain of more than 300% would be a missed opportunity. But our point here is that, if someone like David Paradice did not know what was about to happen to Gamestop, no one really does. So, as the media regales you with stories such as Gamestop, or Afterpay, please do not ever forget the fundamentals of share market investing: time and diversification are critical pieces of the investment puzzle. That will not end any time soon.

The Legal Stuff

General Advice Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

We recommend you seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

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