

# NEWSLETTER

November 2023



**M & M FINANCIAL GROUP**  
WEALTH CREATION | INSURANCE | RETIREMENT

## Introduction

Welcome to the November 2023 newsletter. The share market continued its retreat, the property market continued its advance. And we get the news about interest rates next week. Read on and enjoy!



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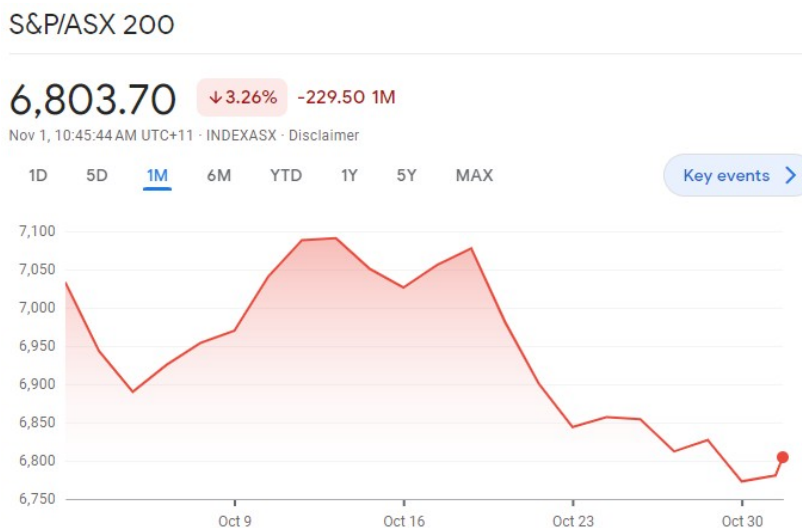
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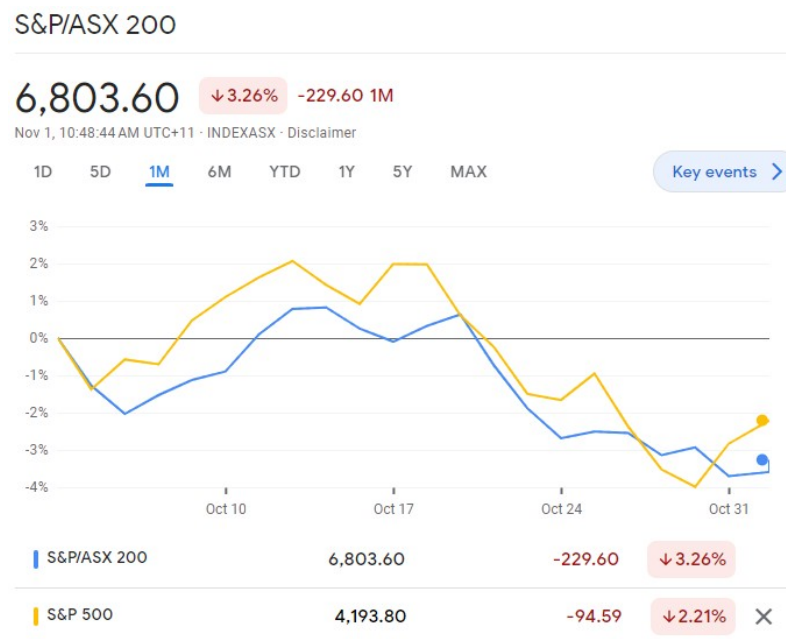
# The Share Market

Last month, we reported that the market had fallen by more than 5% during September. Well, the trend continued in October, with the market as measured by the ASX 200 falling by a further 3% (and this is after a small uptick on November 1, the day we are putting pen to paper for this newsletter).

Here is how October looked thanks to Google and the ASX:



Taken together, these falls mean that since the start of Spring the ASX 200 has fallen by more than 7%. This is a significant fall. Once again, however, it really has little to do with Australian conditions. Our market has basically followed the US market down, as shown in this comparison between our market and the US:



Of late, the falls on world markets are being attributed to global uncertainty about how events in the Middle East will play out. This is shown by the way which ‘safe haven investments,’ such as gold, have increased. The spot price of gold rose by more than 8% during October.

Noticing this led us to do some really interesting research into the global gold market. In many ways, gold is an odd investment. Unlike shares or property, it does not create any income, for example. The only way to generate an investment return on gold is if the price rises in the future. This can only happen if someone in the future thinks that your gold is worth more than you think it is worth today. The success of the investment, therefore, relies on there being someone in the future who thinks that the price of gold will rise again even further into the future.

Ordinarily, this would make gold investing nothing more than a simple speculation. But gold has an unusual aspect that, over time, can mean that investing in gold is more than simply speculating.

Like anything, the price of gold is subject to the influence of supply and demand. But demand for gold is unusually diversified. Around 38% of the demand for gold comes from private investors ([figures sourced here](#)). A further 18% of total demand comes from central banks. Thus, around 56% of demand for gold comes from people seeking to use it as a store of wealth – the traditional ‘safe haven’ use for gold. At times of economic uncertainty, we can expect people to increase their holdings of gold as they seek to ‘ride out’ the uncertainty. These are the people whose only interest in gold is that someone will come along later and buy it off them for at least the same price that it was bought for.

But 56% of demand coming from investors means, of course, that there is around 44% of demand coming from other sources. This 44% comes from two sources. 37% of the total demand is for making jewellery. The remaining 7% is for manufacturing technology, such as smartphones.

Demand for jewellery and new tech rises when an economy is going well. This means that demand for gold can be expected to remain reasonably stable regardless of the state of the economy. When economic conditions worsen, we can expect investors to move their wealth away from places like share markets into ‘safe havens’ like gold. When economic times are good, these investors go in the other direction. However, during the ‘good times,’ demand from manufacturers is also likely to rise, offsetting the fall in demand from investors. This places something of a ‘floor’ under the price of gold.

We were surprised to see this in action when we looked at a graph of the spot price of gold over the last ten years ([sourced from here](#)):



While the graph has plenty of peaks and troughs, the only really sizable trough is that one that came in 2021, and that followed a significant run-up due to the panic of the pandemic. That period was an unusual one.

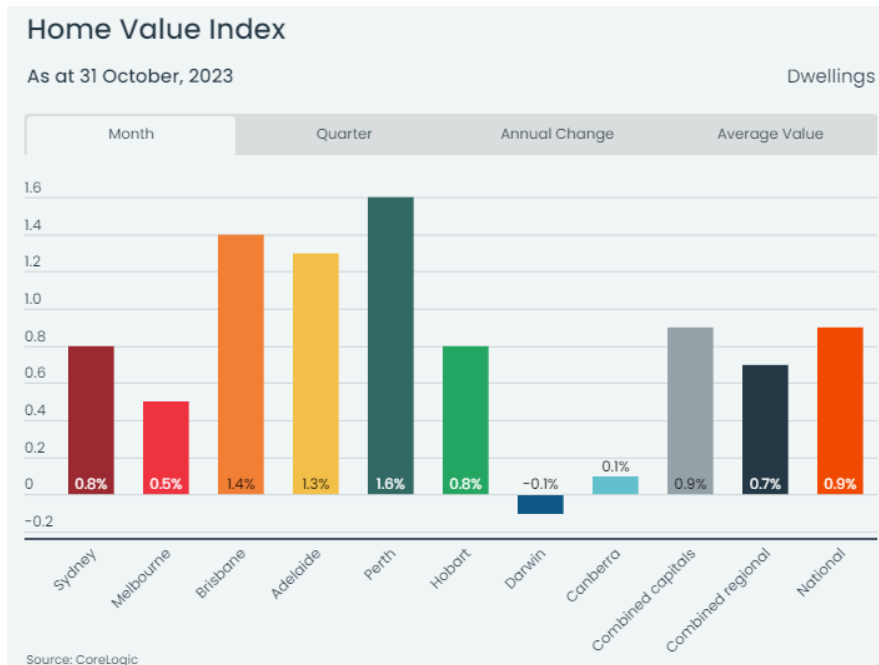
For share market investors, perhaps the really good news is that you do not need to cash in your blue chips and tuck some gold under the mattress. A broad-based investment into the share market, such as through an ETF or index fund that tracks a broad index such as the ASX 200, will mean that you are also investing in gold mining companies. As an example, 9 of the largest 200 companies by market share on the ASX including gold mining in their operations. The 19<sup>th</sup> and 20<sup>th</sup> largest companies on our market (Newmont Corporation and Newcrest Mining, respectively), are gold miners. A diversified share portfolio already includes gold for most people.

This is, of course, another reason why a diversified holding, purchased over time, is such a great idea. It gives investors a very broad exposure across market sectors. Something simple like a managed fund or ETF will usually include companies, like gold companies, for whom the demand for the underlying product is quite stable. What's more, investing in gold in this way is simple, tax-effective and avoids the temptation to put too many eggs in a golden basket.

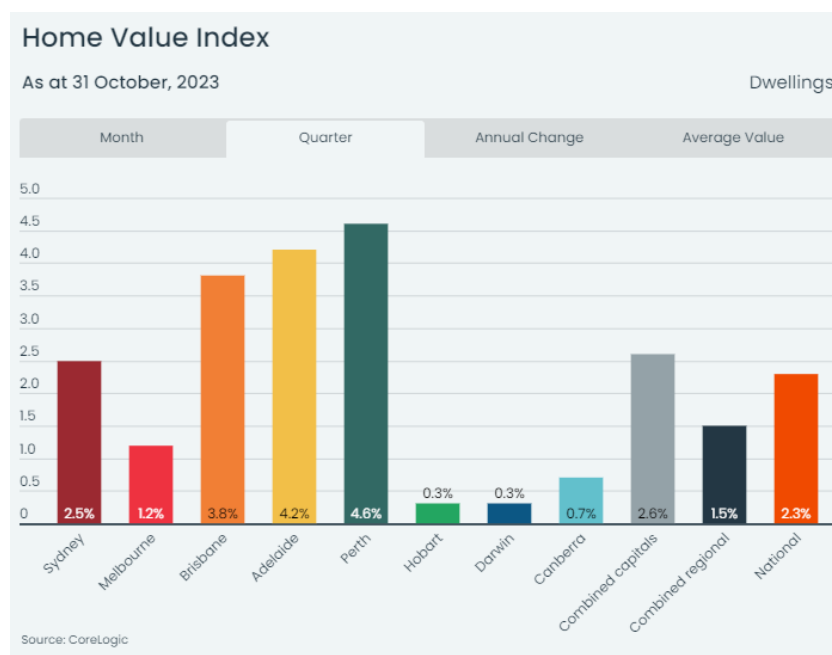
This is also why our own head is sleeping easily on the pillow at night, even while the market falls by 7% in two months. Times like this are simply opportunities to continue the regular purchase of shares that we expect to hold for many years to come. Lower prices just mean we can buy more shares. That's our favourite form of share market investing.

# The Residential Property Market

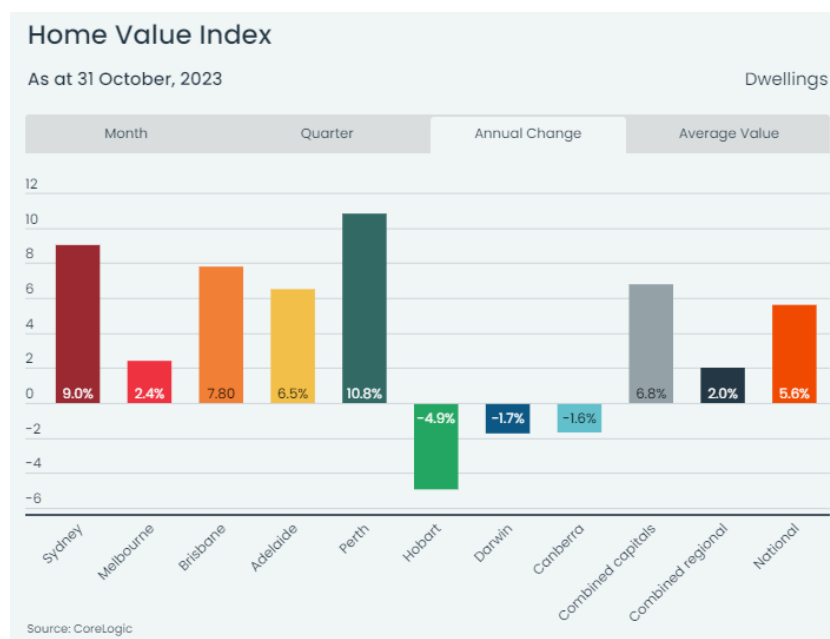
Residential property prices continued their climb in October. According to respected market analyst CoreLogic, prices rose for the month in every market except Darwin, where there was a slight fall. CoreLogic have also introduced a nifty new way of showing their data, which we will borrow here:



Monthly changes in things like house prices are not always that informative. Far more informative are the longer-term trends. These, too, show that prices are rising – this time in all markets around Australia. Here is the change in home values for the three months to the end of October:



Finally, the change over the last 12 months has also been substantial, as shown in this graph:



When we combine these graphs, we see that the smaller markets of Hobart, Canberra and Darwin, which started rising later than other markets, are now playing 'catch-up.' Australia's largest market, Sydney, rose by 9% for the year. This drove the national average up by 5.6%.

CPI inflation for the same period was around 5-6%. So, on the national basis, house prices simply kept up with inflation. But the 'real price' of housing in Sydney, and especially Perth, has increased. When adjust for inflation, housing in those markets became more expensive relative to other things.

Sydney prices do not show any sign of slowing. They rose by 0.8% in October and 2.5% for the three months ended October 31. This implies an annual rate of growth of around 10%.

Interestingly, and perhaps importantly, there does seem to be an increase in the supply of housing into the market. Last weekend, Corelogic report that there was a 33% increase in the number of properties that went to auction compared to the previous weekend. Compared to the same weekend in the previous year, the increase was more than 66%.

The rise in house prices that we have seen over the last 12 months is largely attributed to the relative shortage in supply. This is often referred to in overall terms (that is, 'supply' in this sense means the total number of houses in the country). However, in terms of market pricing, the relevant supply figure is actually the number of properties being offered for sale. If more people seek to sell their homes, then this will reduce prices from where they would otherwise be – unless there is an offsetting increase in the number of people looking to buy. Time will tell whether the increase in supply is matched by an increase in demand. But if it is not, and we continue to see more people offer properties for sale, then we should expect prices growth to slow.

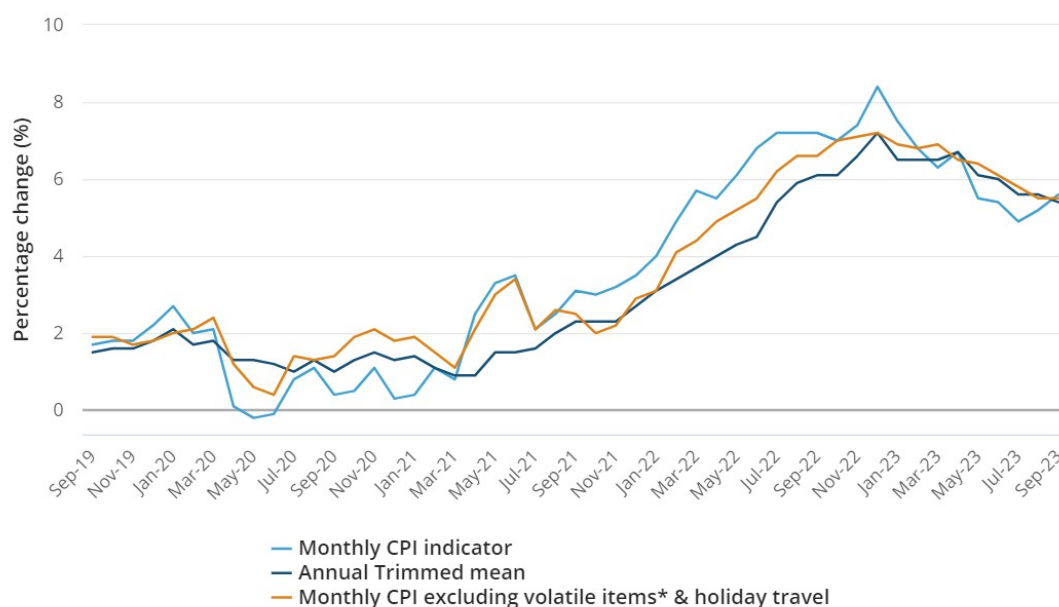
## Inflation and Interest Rates

Next Tuesday the race that stops the nation won't stop the RBA meeting. That will happen as it always does on the first Tuesday of the month.

As a result, as we write this we do not know whether there will be another change in interest rates.

What we do know is that the reported CPI rate to the end of September, released last week, suggests an annual inflation rate of 5.6%. This is the 'raw' figure. The ABS likes to adjust this figure, to exclude what it sees as volatile prices such as petrol and fresh food. This volatility is often driven by things such as supply shortages and so price changes are not necessarily suggestive of broader price inflation (or deflation when these prices fall). The ABS also 'trim' their measure by taking out unusual data. This then gives them the following three indicators of inflation:

Monthly CPI indicator, Australia, annual movement (%)



\*Volatile items are Fruit and vegetables and Automotive fuel

As you can see, while the overall CPI indicator rose in September, largely due to fuel prices, the other two indicators continued to fall. As has often been said, interest rate rises take up to 12 months to have their full effect. The last rise was in June, so it will not be until mid-2024 that we have experienced the full impact of that rise. But the impact of previous interest rate rises seems to be that the rate of increase in prices is slowing.

This may lead the RBA to decide to simply continue watching what impact their previous decisions continue to have. That said, predicting the RBA's decisions is not our main business. What's more, their decisions actually have a greater impact if they are unexpected, so we will not go out on a limb and nominate where we think interest rates are going. But by the time the Melbourne Cup has been run and won, we will all know what's happening to our loans and interest-bearing savings accounts.



# The Legal Stuff

## General Advice Warning

The above information is general in nature and does not take into account your personal situation. You should consider whether the information is appropriate to your needs, and where necessary, seek professional advice from a financial adviser.

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