

# NEWSLETTER

September 2023



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

## Introduction

Welcome to the September 2023 newsletter. Maybe, just maybe, things are starting to even out. Interest rates have stayed the same. The share market tracked sideways. And residential property's recent growth slowed. Things could be about to get boring.



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## The Share Market

The share market pretty much moved sideways during August. Between August 4 and September 4, here is how the market closed each day, as measured by the ASX 200:

### S&P/ASX 200

7,306.80

↓ 0.25% -18.50 1M

Sep 4, 1:54:14 PM UTC+10 · INDEXASX · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX

Key events >



As the graph shows, though, the month of August had some turbulence, with prices falling and then rising again by about 3% through the middle of the month. This was great for people whose dollar cost averaging had them buying around August 21! In a month when the market tracked sideways, they earned 3% or so within a week of their investment.

We have not discussed it for a while, so it is worth revisiting the concept of dollar cost averaging ('DCA'). The idea is a simple one: if you have a chunk of money to invest, then DCA recommends that you divide that chunk up into smaller chunks and invest these smaller amounts at set periods of time. You do this instead of investing your larger chunk of money all at the same time.

The simplest example is a person with \$60,000 to invest into the share market. They could invest that money all at once, immediately. That runs the risk, though, that the investor will lose money if the market is about to fall. To avoid this risk, the DCA approach would be to invest \$5,000 per month for the coming 12 months.

Prices are unlikely to stay constant over that 12-month period. Because the amount being invested is the same each month, the investor automatically buys more investment units (for example, shares) in the months when prices are low, and fewer units in the months when prices are high.

The really zealous proponents of DCA even recommend completely ignoring the price on the day you make your purchase. No matter what the market has done, they recommend choosing your investment day in advance and then sticking with it. If you are going to invest monthly, invest on the same day each month.

This is why people who are using DCA and chose something like August 21 2023 to make their investment would be happy right now. (Of course, people who invested on August 7 were not feeling so chipper two weeks after that date! At least their investment had bounced back by month's end).

Of course, any regular investment over time will be a version of DCA. Employer super contributions, for example, usually find themselves invested into growth markets a little bit at a time – hopefully across a long working life. Automatic DCA.


DCA is a great strategy when markets move downwards, because the investor can take advantage of falling future prices. It is not such a good strategy when markets move upwards, as those same future purchases have become more expensive. But proponents of the technique work on the theory that it is more important not to lose money than it is to try to make it.

The underlying rationale for DCA is that it is very hard to know which way the market is about to move. There is a very simple logic for this: sudden movements in price are caused by 'shocks.' And the shocks that that can move the market (either up or down) are, by definition, unpredictable. If the shock was predicted, the market would have already moved. Only unexpected (and unpredicted) news can shock a market into moving up or down.

August was not a month for shocks – at least not in the Australian context. As is usually the case, our market basically followed the US market, in this case by tracking down and then rising up again.

Plus ça change...

PS: you may have heard of a fellow named Warren Buffett. He is an extremely successful investor. He is also a major proponent of DCA:



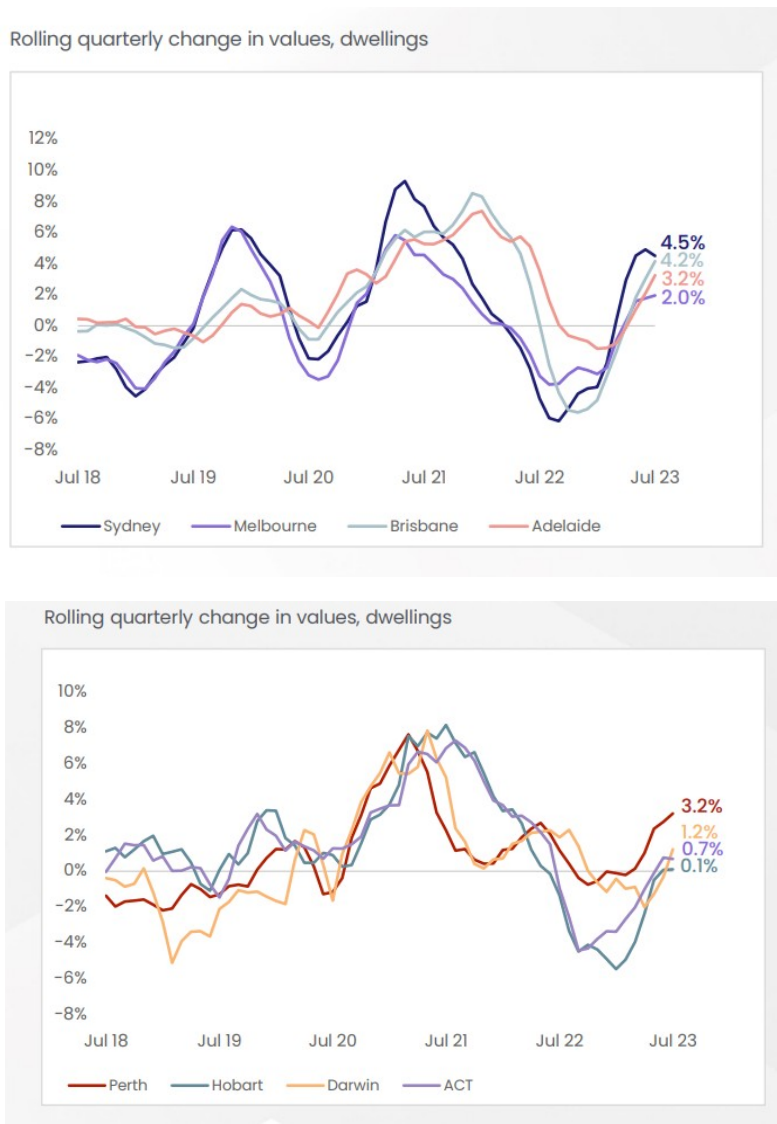
If you invested in a very low cost index fund - where you don't put the money in at one time, but average in over 10 years -you'll do better than 90% of people who start investing at the same time.

— Warren Buffett —

AZ QUOTES

## The Residential Property Market

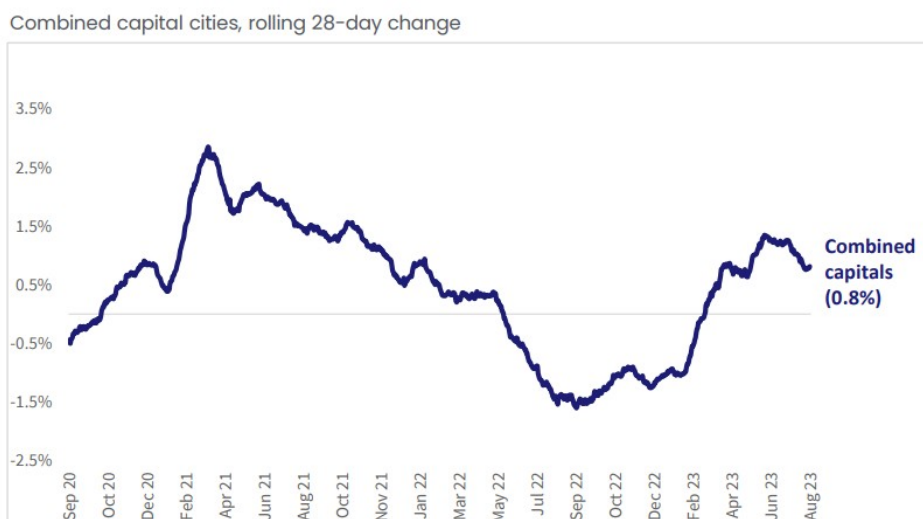
In the three months to the end of July, Australian residential property prices rose by 2.9% (all figures from [www.corelogic.com.au](http://www.corelogic.com.au) unless otherwise stated). Prices rose in every capital city, as shown in these two graphs:



Sydney's growth was the highest. Sydney is also our largest market, so changes in that market have a greater influence on the national average than changes in other capitals. The smallest changes were in Hobart and the ACT. These are two of the three smallest markets, so they did not do much to bring down the national average.

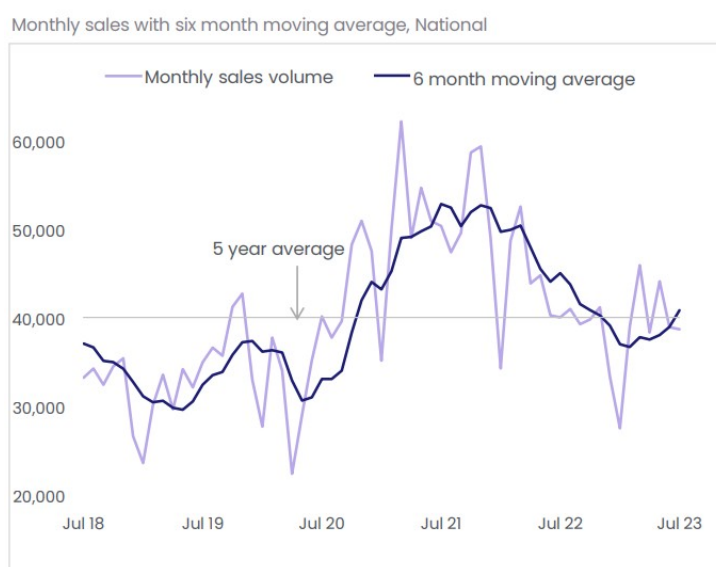
Of course, this is just one way that averages can mislead. Another is that not all housing is the same. As it happens, much of the increase in prices over the last three months has come at the more expensive end of the residential property market. For example, for the quarter ending 31 July 2023, prices for the most expensive 25% of houses in Sydney rose by 5.2%, whereas prices for the least expensive 25% of houses only rose by 3%. So, more affordable housing is remaining more affordable.

Corelogic point out that the monthly changes (which are a little less reliable than quarterly changes) are actually slowing on average around the country. They report that the average national price rise for the single month of August was only 0.8%. This this represents a slowing rate of change. Here is how the monthly changes look, going back three years:



As you can see, while the change is still above zero, it may well be starting to trend down again from it's highpoint in June. If this is the case, then it may be that we are in for a period of either slow growth, plateauing or even some more minor falls in the value of house prices.

Another sign of the state of the market comes from the number of properties being sold. These numbers have been down lately, but the latest figures show that the current level of sales is very close to the five-year average:



The five-year average is around 40,000 properties sold. That said, according to the ABS, our population has risen by about 4%, or around 1 million people, since July 2018. So, we would anticipate a natural increase in sales of about 4%. This suggests that the market is still a little quieter than we would expect. As this indicates less supply, this relative quiet may be keeping prices lower.

## Inflation and Interest Rates

Inflation continues to slow in Australia. For the 12 months to the end of July 2023, the average rate was 4.9%. This was lower than the 5.4% between June 2022 and June 2023, and the 5.5% between May 2022 and May this year (source for all data in this section: [Australian Bureau of Statistics](#)).

Undoubtedly, the rises that persist are being driven largely by energy prices. Electricity prices rose 15.7% in the 12 months to the end of July (and for most households, they rose again significantly on August 1 – a rise that will show up in the figures next month). Gas rose 13% in the same period - although this was an improvement on the 27.2% rise for the 12 months to May. So, much of the increase in gas prices was in June and July last year, and this increase has now 'fallen out' of the index.

The other large change was rents: these rose 7.6% for the 12 months to the end of July.

The main policy response to inflation is of course to increase interest rates. Given that our electricity and gas prices are largely set by world markets, interest rate changes will not do much to reduce prices in these sectors. This is especially the case as these utilities are necessities for most people and thus can't be avoided. We have also spoken before about how, in a market with insufficient rental accommodation available, interest rate rises can actually cause rents to rise. Landlords with pricing power can pass their extra borrowing costs onto their customers, aka tenants.

So, rising interest rates can't do much about price rises in these two big sectors – and they may even cause prices to rise further in one of them. This means that, to bring down inflation, rising interest rates need to 'work really hard' to reduce activity in other parts of the economy. Remember, CPI is an average of price rises. So, rises in energy and housing can be offset by smaller rises, or falls, elsewhere in the index.

The evidence is that this is happening: clothes, for example, rose by just 1.5% for the 12 months to July. Fresh fruit and vegetables actually fell by 5%, and meat and seafood rose by just 2.4%. These items, too, are necessities.

Statistics like these undoubtedly went into the 'decision mix' for the RBA board when they met on Tuesday of this week. Once again, they decided to leave interest rates unchanged.

There now seems some support for the idea that interest rates may have peaked. When inflation reached its highpoint in December 2022, the annual rate was 8.4%. This was 5.4 percentage points above the RBA target of 2-3%. The current rate of 4.9% is only 1.9 points above that target, so more than half of the work to rein in inflation appears to be behind us. Fingers crossed.

This week also marked the last meeting overseen by the outgoing Governor of the RBA, Philip Lowe. He will be replaced by Michelle Bullock, who will become Australia's first female Governor of the RBA. This is, therefore, a momentous week.

# 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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