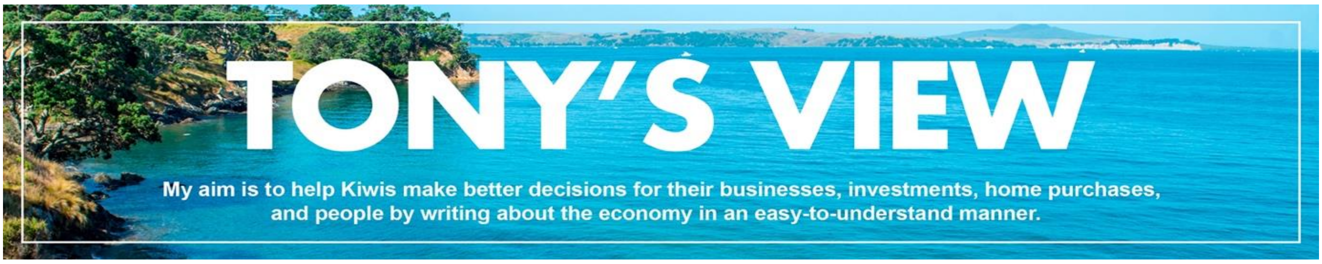

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Investment preferences by age

Does the age of the investor make much difference when it comes to what they plan to do with their money? This is a question we can answer with reference to my monthly Portfolio Investment Survey, now sponsored by Sharesies.

I allow people to choose from four age groups and the numbers for each were as follows for the November survey.

Under 30 years	67
30-50 years	511
51-65 years	632
Over 65 years	309

Asset type preferences

Let's start by looking at the asset types which people prefer measured in terms of net positive purchasing intentions. Age makes little difference when it comes to most categories apart from these ones. On the following page you will find an expanded graph showing asset net purchasing intentions according to the age group of the survey respondent.

Residential property

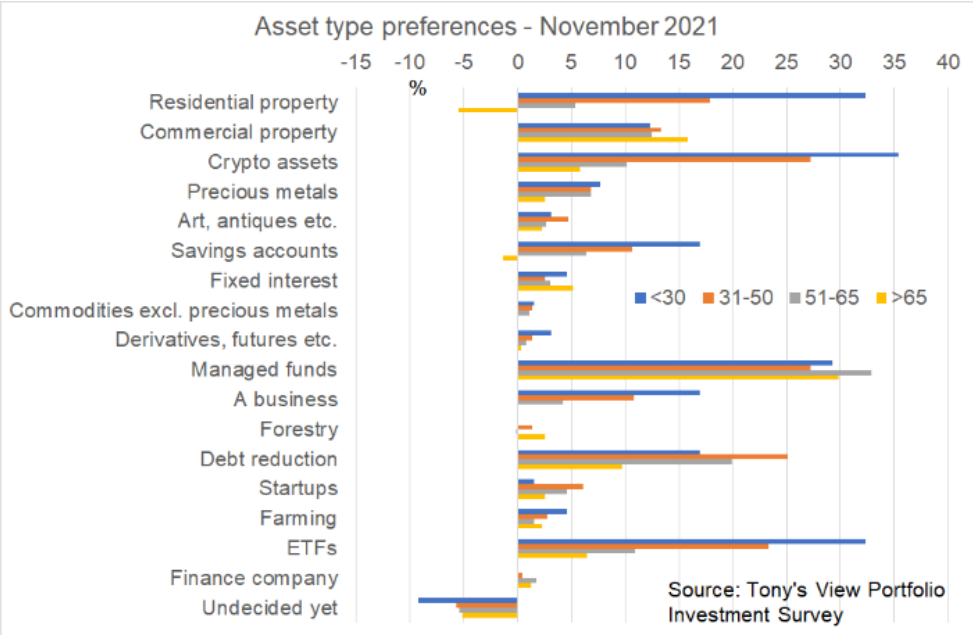
The younger you are the far more you favour housing as an investment compared with older people. On this basis, with the Baby Boomers hitting retirement age a decade ago and showing a net desire to divest themselves of residential property, one would struggle to run an argument that these older people are responsible for the 39% surge in prices since March 2020.

Crypto assets

These assets of no intrinsic value are largely favoured by young investors.

Savings accounts

Young people also are more inclined to favour savings accounts. This is likely to reflect a desire/need to build cash assets as opposed to the desire for a return sought by those who are older. Few young people will be living off of the



returns from their savings, but many older people highly value such cash flows.

Managed funds

It doesn't matter what age group you belong to. All ages favour investing in managed funds.

A business

It seems unsurprising that the younger you are the more likely you are to favour investing in a business – probably your own in this context. The business purchase/sale market seems to be very active at the moment with a shortage of good businesses for sale. Frankly, give the well-discussed problems which older small business owners have had in finding a buyer over the past decade, it would seem to be an opportune time to perhaps place one's asset on the market through a broker.

Debt reduction

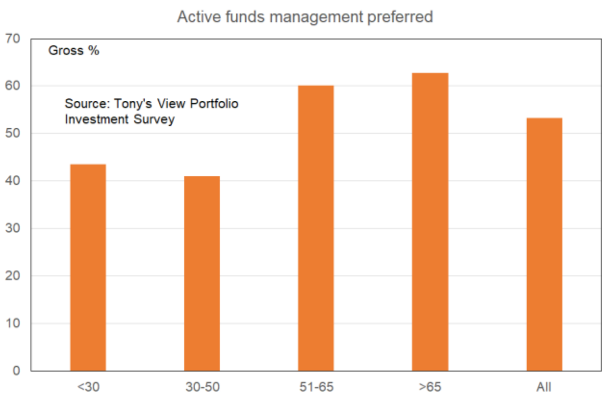
This use of funds is highly favoured by those aged 31-50. This probably reflects a desire to reduce the size of one's potentially large mortgage.

Exchange traded funds

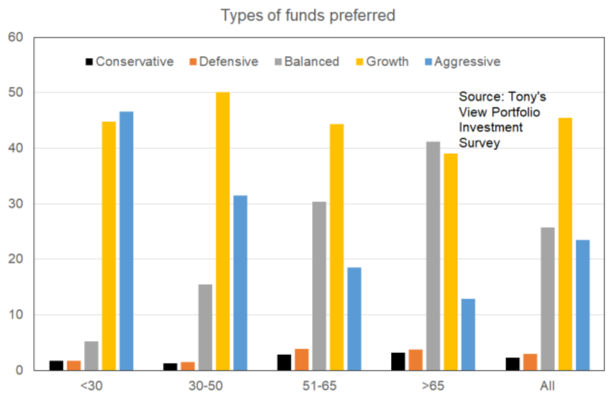
This is interesting. All age groups highly favour investing in managed funds. But it is largely the young people favouring the option of buying listed units in such funds as opposed to making direct contributions to a funds manager.

Passive vs. Active Funds Management

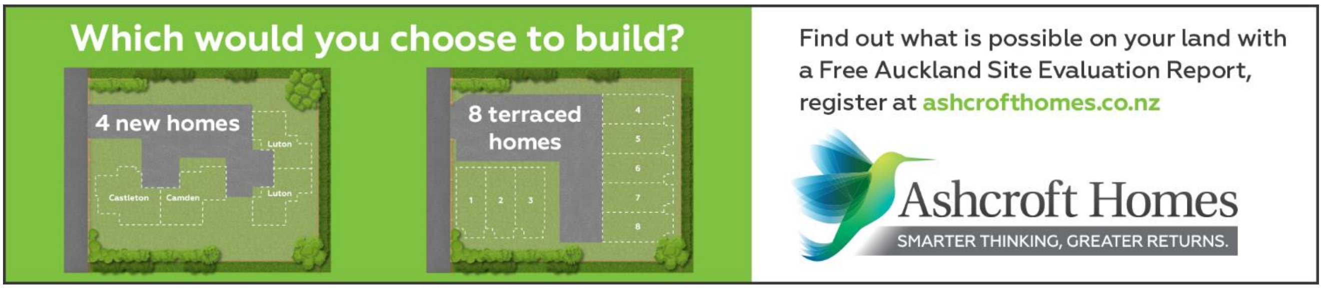
On the radio I've been hearing advertising promoting active over passive investing. My survey shows that the older you are the more likely you are to favour investment in an actively managed fund.

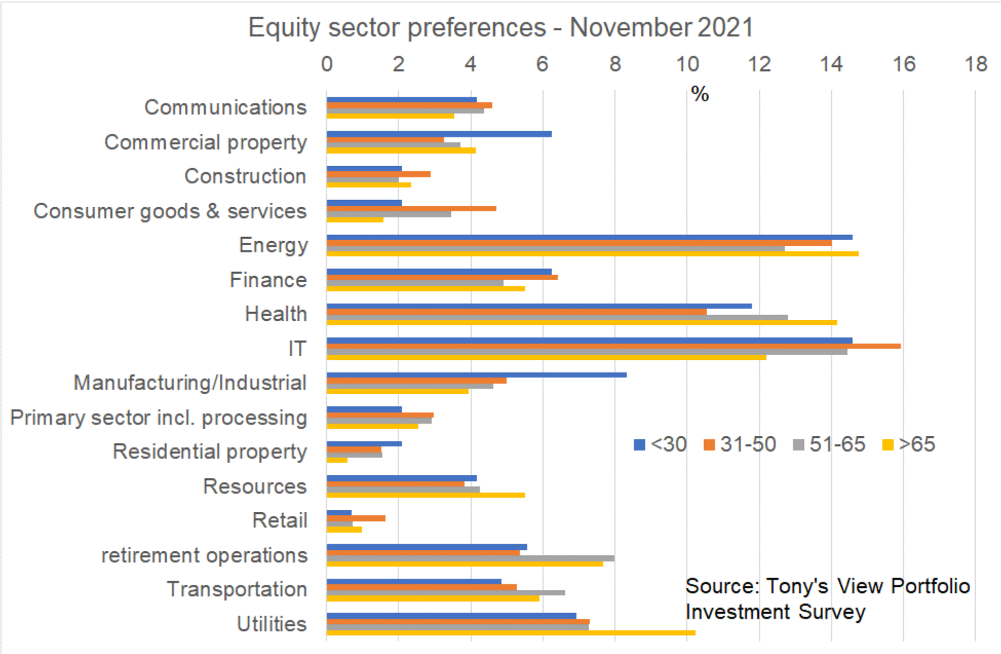


Maybe this lesser preference by young people is affected by the presence of other important things occupying one's mind and emotions beyond keeping an eye on individual share prices and sectors. Younger people tend to favour a growth focus for their managed funds investments, and such funds can involve more frequent compositional changes than conservative funds. This preference makes sense given the timeframes involved.



But it is worth noting that 51% of people aged 65 and over prefer a growth or aggressive fund orientation. This may reflect the fact that the timeframe over which they expect to draw down their capital likely stretches over a couple of decades. Plus, with interest rates so low, conservative funds which contain highish proportions of cash and fixed interest assets can offer lower total returns than higher risk-oriented portfolios.



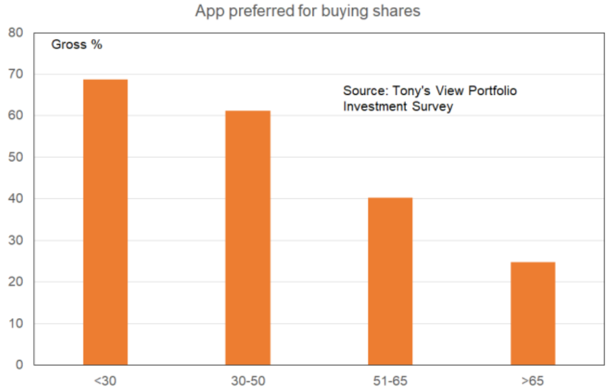


Equity sector preferences

When it comes to the sectors of listed stocks people prefer, there are no differences by age group which I can see of any significance in this following graph. Maybe you can spot something different.

App users

Almost 70% of people aged below 30 say they prefer using an app to make their share purchases. This decreases to just 24% of those aged over 65.



Fixed rate lending margins

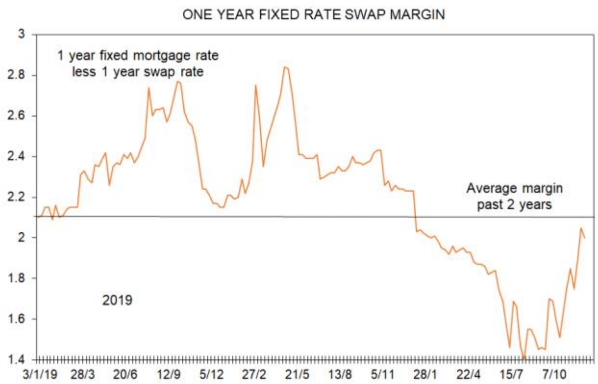
There's a piece of analysis which I include each week in Tview Premium and which delivered useful insight into the upside risk facing fixed mortgage interest rates quite some time back. I like to think the warning being delivered by this small bit of analysis helped some borrowers get their fixed rates locked in before things went ballistic and we saw the fastest pace of fixed rate rises since these home loan products first appeared at the start of the 1990s.

Each week I produce graphs showing a rough calculation of the margin between what banks set their fixed lending rates at and the cost to them of borrowing fixed rate money.

As a rule, banks in New Zealand do not finance fixed rate lending by borrowing at floating interest rates. That is quite dangerous in a country with a long history of high volatility in short-term interest rates. They try as best as possible to avoid a mismatch between the interest rate terms they lend at and the interest rate terms they borrow at.

The best indicator of changes in bank fixed rate borrowing costs is gained by looking at swap rates. These don't capture all bank lending costs, but those other costs don't tend to change much over short periods of time – swap rates however can move substantially.

Consider the following graph. It shows the difference between the best one-year fixed rate offered by the lenders I track and the one year swap rate. The graph starts in January 2019 and includes a straight black line showing what the margin has averaged over the past two years.



We can see that margins were well below average from early this year. The graph was signalling that at some stage banks would look to raise the one year fixed mortgage rate at a pace faster than the increase in the one year swap rate. That is what has just happened.

The margin is almost back to the two year average, which is about 0.2% below the five year average. So, things are almost back to "normal".

But there are times when the margin is above average. The chances seem strong that we are about to enter one of those periods. Why?

Banks want to lend money. It is the nature of their business. But for the moment they are not aggressively chasing market share. This is because they are scared of breaching the Reserve Bank's new requirement that low deposit lending cannot exceed 10% of all new housing lending.

They are also concerned about the new requirements of the Credit Contracts and Consumer Finance Act. Banks have to prove that they have fully assessed the ability of every consumer borrower to service their loan and eventually repay it. This applies not just to new loans but top-ups to existing ones.

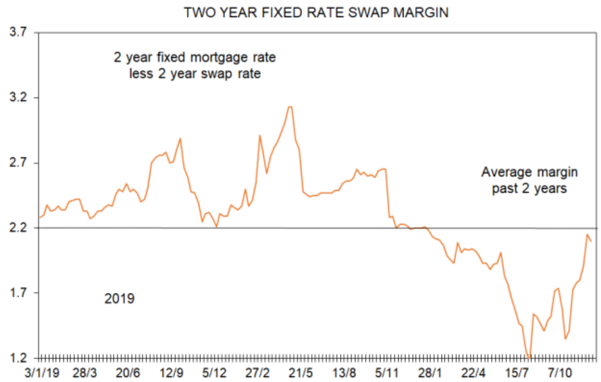
Fear of getting it wrong and being held liable for difficulties and losses which an over-optimistic or just unfortunate borrower might face, banks are counting expenses never before counted. They are also looking askance at any income source other than a steady full-time job.

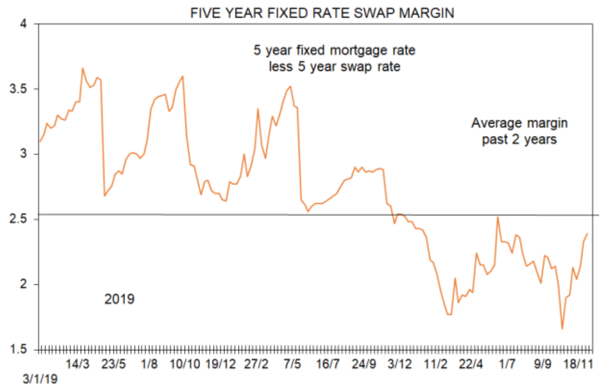
Banks are also getting ready for when the Reserve Bank makes them officially limit lending to a multiple of the borrower's income – debt to income restrictions (DTIs).

I mentioned some months ago that banks would take advantage of the fog of confusion surrounding tightening monetary policy to rebuild their margins. I'd like to extend that to saying they will also take advantage of the fog surrounding the tightest lending rules most people have ever seen to also build their margins.

Thus, even without another move on the official cash rate for a few months, and even without much change in swap rates, banks are still likely to push their fixed mortgage rates higher. How much higher is anyone's guess and they will judge that in pricing committee meetings over coming weeks.

For your guide, here are two of the other graphs I include each week in TVP. Enjoy.



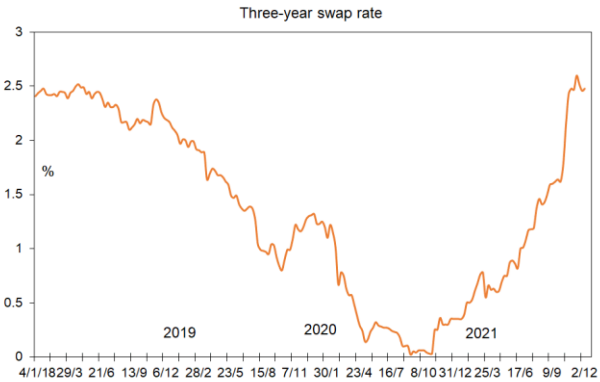


If I were a borrower, what would I do?

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.

This week the one year swap rate at which banks borrow to lend at a fixed rate for a year has increased to 1.7% from 1.6% last week. The three year rate is steady near 2.48%. Last week rates fell away because of Omicron concerns. Now those concerns have eased somewhat in the absence of any evidence that the new variant is worse than Delta though it spreads more easily.

Note how the three year swap rate is now back where it was before the Reserve Bank cut the official cash rate 0.75% in 2019.



My current expectation for the one-year rate in December each year is shown in the first column of the table below. I focus on that rate because there are many people who have fixed one-year repeatedly since 2009 and the strategy has worked very well.

The second column shows what the one-year rate will average over the next 2-, 3-, 4-, and 5-year periods. The last column shows the current minimum 2 – 5-year fixed rates charged by the lenders I track.

	Forecast 1 year rate	Rolling average rates	Current fixed	
2021	4.15		3.65	1 yr
2022	4.5	4.33	4.15	2 yr
2023	5.25	4.63	4.69	3 yr
2024	4.65	4.64	4.79	4 yr
2025	4.25	4.56	4.95	5 yr

If these forecasts prove correct (I'd give that a 10% probability), rolling one-year fixed will deliver an average rate for the next two years of 4.33%, three years 4.63%, four years 4.64%, and five years 4.56%.

The last column shows what the current minimum fixed rates are for those time periods. Fixed rates are above what one might pay rolling one year for the next four and five years.

If I were a borrower, what would I do?

I would probably fix in the two and three year periods.

Links to publications

Tony's View Spending Plans Survey

Spending Plans Survey

mortgages.co.nz & Tony Alexander Mortgage Advisors Survey

Tony's View Business Survey

Business Survey

Tony Alexander Regional Property Report

Tony's Thoughts Vlog

Valocity Valuer Survey

REINZ & Tony Alexander Real Estate Survey

Crockers & Tony Alexander Investor Insights

Oneroof weekly column

Tony's View Portfolio Investment Survey